GLOSSARY

*Throughout these instructions, **you** and **your** refers to the reporting savings association and its consolidated subsidiaries; **we** and **our** refers to the Office of Thrift Supervision.*

We use this glossary to explain terms that we use in connection with the Thrift Financial Report. We have neither officially approved nor sanctioned the definitions. They are not legal definitions and you should not use them to interpret or define provisions of our regulations or other official documents. A more extensive glossary of financial terms is available for $10 from our Order Department, P. O. Box 753, Waldorf, MD 20604, 301-645-6264. Also refer to the glossary in the OTS Trust and Asset Management Handbook.

A

Above Par (Value)

A higher dollar amount than the face value, or par, of a security. Above par occurs when a security sells at a premium – for more than par or face value. The premium is the difference between the face value and the market price.

Accelerated Mortgage Amortization

(1) The restructuring of an existing mortgage loan by increasing the monthly payment to pay off the loan in a shorter time than the original maturity. (2) Prepayment of loan principal.

Acceleration Clause

A clause commonly included in mortgages and bonds, it gives the holder the right to demand that the borrower pay the entire outstanding balance in the event of default or other breach of contract.

Accounting Principles Board (APB)

A principle-making body of the American Institute of CPAs (AICPA) established in 1959. Membership of the Accounting Principles Board included representatives from public accounting, the industry, and academia. The APB issued thirty-one opinions known as APB Opinions during its existence until it was terminated in 1972 and replaced by the Financial Accounting Standards Board (FASB).

Accounting Research Bulletins (ARB)

Pronouncements issued by the Committee on Accounting Procedure of the American Institute of CPAs (AICPA) during the period 1939 through 1959, at which time the Accounting Principles Board replaced the

Committee. Fifty-one ARBs were issued, formally establishing accounting principles on a variety of issues.

Accounts Payable

Short-term liabilities incurred and amounts recorded on the books of a company or individual that are owed to a creditor for previously purchased merchandise or services rendered.

Accounts Receivable

Amounts recorded as assets on the books of a company or individual that are due for merchandise sold or services rendered.

Accretion

Addition to income resulting from gradual, periodic reduction of deferred income.

Accrual Basis

(1) The basis of accounting under which revenues are recorded when earned and expenditures are recorded as soon as they result in liabilities for benefit received, notwithstanding that the receipt of the revenue or the payment of the expenditure may take place, in whole or in part, in another accounting period. (2) Opposite of cash basis accounting. The accrual basis of accounting must be used in the preparation of the Thrift Financial Report.

Accrued Dividend

A dividend declared by the Board of Directors and considered to be earned and payable but not yet paid on stock or other instruments of ownership of a business.

Accrued Expense

Costs incurred during an accounting period but not paid.

Accrued Interest

Interest earned, but not received or credited, for the period of time that has elapsed since interest was last received.

Actual Thrift Investment Percentage (ATIP)

A ratio whose numerator is housing-related investments, called qualified thrift investments, and whose denominator is portfolio assets. The ratio is used to determine whether a savings association meets the qualified thrift lender (QTL) test. Savings associations may elect to use the Internal Revenue Service tax code Domestic Building and Loan Association (DBLA) test rather than the QTL test.

ADC

Acquisition, development, and/or construction.

Add-on Interest

The amount of interest the borrower will pay during the term of the loan that is added to the principal of the loan to determine the face amount of the note. The borrower signs a note promising to repay the face amount (principal plus interest), although only the principal is disbursed to the borrower. Since the interest is not yet earned at the date of closing, a contra-account to the loan is set up representing the unearned interest. This contra-account is reduced monthly and credited to interest income until at the time of maturity the contra-account is zero and the full principal is due. Report loans with add-on interest net of the unearned interest in Schedule SC in accordance with APB Opinion No. 21. *See* Discount Loan.

Adjustable Rate

An asset or liability repriced (rate adjusted) periodically during its life according to a predetermined formula or index. The interest rate is automatically adjusted at stated intervals. *See* Adjustable-Rate Mortgage, Floating-Rate Securities, and Floating-Rate Tranches.

Adjustable-rate Mortgage (ARM)

A loan with an interest rate that is periodically adjusted, moving higher or lower in the same ratio as a preselected index, such as Treasury bill rates. ARM loans may limit interest rate increases, caps, within a given time period and over the life of the loan, and may limit the frequency of interest rate adjustments. Typically, ARM loans initially have below-market interest rates, teaser rates, in return for the borrower sharing the risk that interest rates may rise during the course of the loan.

Adjusted Basis

Equals cost at which an asset is acquired and adjusted for certain occurrences since the day of acquisition. For example, the adjusted basis of real property is generally the purchase price plus capital improvements to the property less any depreciation taken. Adjusted basis is used in calculating gains and losses on the sale of an asset.

Adjusting Entries

Bookkeeping entries made after the trial balance is prepared but before the closing entries. The adjusting entries are necessary to make the income and expense accounts consistent with the accrual method of accounting.

Advances

Loans the Federal Home Loan Banks issue to member savings associations.

Affiliated Company

(1) A company that exercises control over another company either directly or indirectly. (2) A company that has common ownership with another company.

Affiliated Person

(1) A director, officer, or controlling person of a savings association or its holding company. (2) A member of the immediate family residing in the same household as a director, officer, or controlling person of a savings association.

Agencies

Securities issued by an agency of the federal government, for example, Fannie Mae, Ginnie Mae, etc.

AICPA

American Institute of Certified Public Accountants.

ALLL

Allowance for loan and lease losses.

Allowance

A reserve set aside for bad debts or for depreciation. *See* Allowance for Loan and Lease Losses (ALLL) and Valuation Allowances.

Allowance for Loan and Lease Losses (ALLL)

Valuation allowances established to absorb unidentified losses inherent in a savings association's overall loan and lease portfolio. *See* General Valuation Allowances and Specific Valuation Allowances.

Alternative Mortgage Instruments

Mortgage plans that differ from conventional fixed rate, fixed term, fixed monthly payment, fully amortized mortgages.

Amortization

(1) The gradual reduction of an asset or liability by means of periodic charges to reduce income or to increase expense. (2) The repayment of a loan calculated so that the principal will be paid in full through monthly payments of principal and interest for a predetermined period of time, typically 30 years for one- to four-family residential mortgages.

Amortized Cost

Equals the face value net of unamortized discounts and premiums less write-offs. *See* Book Value, Face Value, and Recorded Investment.

Annual Percentage Rate (APR)

A requirement of Truth in Lending laws designed to show consumers the total cost of credit, including the effective interest rate plus certain finance and service charges, points.

Annual Percentage Yield (APY)

The effective annual rate of income expressed as a percentage of the price originally paid. This calculation assumes that interest earned is reinvested.

Annuity

(1) A series of equal payments at fixed intervals, such as monthly or annually. (2) An investment yielding fixed payments during the holder's lifetime or for a stated number of years.

Anticipatory Hedge

(1) A long anticipatory hedge is initiated by buying futures contracts to protect against a rise in the price of an asset to be purchased at a later date. (2) A short anticipatory hedge is initiated by selling futures contracts to protect against the decline in price of an asset to be sold at a future date, or to protect against a rise in interest rates of a fixed-rate liability or a future repricing on a variable-rate liability.

APB

Accounting Principles Board.

Appraisal

An estimate of the market value of an asset by a qualified appraiser.

Appreciation

The increase in value of an asset, specifically the increase in market value of real estate.

APR

Annual Percentage Rate.

APY

Annual Percentage Yield.

ARB

Accounting Research Bulletins.

Arbitrage

A transaction that involves buying a commodity in one market and simultaneously selling it in another market to profit from a disparity in prices between two markets. In a true arbitrage, the timing of the transactions must be simultaneous, thus imposing no risk to the investor.

Arm's-length Transaction

(1) A transaction negotiated by unrelated parties, each acting in his or her own best interest. (2) The basis for a fair market value determination.

Arrears

A payment not made when due. Frequently used in connection with installment notes, mortgages, rent, and other obligations due and payable on a certain specified date.

Asked Price

The price at which a security is offered for sale.

Assessment

(1) An estimate of the value of real property for levying taxes; also called assessed valuation. (2) A charge against real property levied by a public governing body for a local improvement, such as a sewer repair or street paving.

Asset

Anything owned by an individual or company that has commercial usefulness or value if sold. An asset may be physical property, enforceable claims against others, including loans and accounts receivable, and deferred expenses. An asset may be tangible or intangible.

Asset/Liability Management

A planning and control process, the key concept of which is the integrated approach to matching the mix and maturities of assets and liabilities to achieve a favorable and even flow of "net interest margin."

Assisted Merger

The takeover of a troubled savings association by another depository institution with financial assistance provided from a federal deposit insurance fund.

ATIP

Actual Thrift Investment Percentage.

ATM

Automated teller machine.

At-the-Money Option

An option with a strike price equal to the current market price of the underlying cash or futures contract. In this instance, the intrinsic value is zero and the value of the option reflects a premium paid for: (1) the time the holder has to decide whether or not to exercise the option, and (2) the expected price volatility. The value of this premium declines over time.

Automated Teller Machine (ATM)

A machine that permits customers to gain access to their accounts through the use of a magnetically encoded plastic card and by pushing appropriate buttons on a computer terminal. ATMs dispense cash, accept deposits, transfer funds from one account to another, and perform other functions. Generally, ATMs are available 24 hours a day.

Average Rate of Return

The return of an investment calculated by totaling the cash flow over the years divided by the amount of the investment, and dividing that amount by the number of years (or months) that the investment is outstanding.

B

Bad Debt Reserve

A valuation allowance that savings associations maintain for income tax purposes to offset losses from foreclosed or uncollectable loans.

Balloon Loan

A loan that does not fully amortize by the end of the loan term. Periodic payments may be for principal and interest, or for interest only. At maturity, the unpaid principal is due in a lump sum.

Bank Check

A check that a bank draws on itself then has it signed by an authorized bank officer. *See* Cashier's Checks and Official Checks.

Bank Insurance Fund (BIF)

A fund, administered by the FDIC, that insures deposits of member banks (primarily commercial banks) up to $100,000 per depositor. *See* Savings Association Insurance Fund.

Bank Investment Contract (BIC)

Investment contract issued by a bank where interest is guaranteed by the bank in a portfolio over a specific time frame with a specific yield. Unlike guaranteed investment contracts (GICs), BICs do not include annuity provisions.

Banker's Acceptance

A draft drawn on a depository institution by another, which when accepted by the depository institution, obligates the depository institution to pay specific obligations of the draft writer when due. Acceptance converts a depositor's "order to pay" into an unconditional "promise to pay" by the accepting depository institution. Bankers acceptances are effectively a guaranty of payment for a purchase and are generally used in financing the import, export, transfer or storage of goods.

Banking Act of 1933

Legislation that (1) created the Federal Deposit Insurance Corporation to provide insurance of deposits for member banks; (2) provided for the regulation of banks; and (3) limited branch banking. Also known as the Glass-Steagall Act.

Basis Point

A measurement of yields or changes in prices or yields for securities. One basis point equals one one-hundredth of one percent. One hundred basis points equal one percent.

Bear Market

(1) A period of falling prices. (2) A condition of a stock market characterized by a selling trend and declining prices. (3) Opposite of a bull market.

Bearer Bond

A bond that does not have the owner's name registered on the books of the issuing agency or company, and is payable to whomever holds the bond.

Before-tax Income

Gross income less all expenses except for income tax expense.

Below Market

A price that is lower than the prevailing level at which a security is currently quoted or traded.

Below-market Interest Rate

A lower interest rate than the current rate for conventional financing in a given geographical area. Programs with below-market rates may be used to assist low or moderate income buyers.

Below Par

A price lower than par or face value. The difference between the price and the face value is the discount.

BIC

Bank Investment Contract.

Bid

(1) The price that a potential buyer is willing to pay for a security. (2) An offer to purchase something.

BIF

Bank Insurance Fund.

BIF HOLA Savings Association

A BIF-insured, OTS-regulated savings association.

Blanket Mortgage Loan

A loan made to developers or contractors to purchase one or more tracts of land with the intention of dividing the land into smaller parcels for resale or development.

Bond

A certificate that evidences a debt. The debt is initiated when the issuer sells the bond to the holder for a specific amount of cash. The issuer is obligated to pay the holder of the bond a fixed sum (the bond's face value) at a stated future date and to pay interest (usually twice a year) at a specified rate during the life of the bond. Corporations, the federal government, and state and local governments may issue bonds as a means of raising funds in the capital markets. Bonds may be issued in registered form, in which the name of the holder is on record with the issuer, or in bearer form, in which the name of the owner is not registered and the bond is payable to whomever bears or presents the bond to the issuer for redemption.

Bond Discount

The difference between the purchase price and face value of a bond when the face value exceeds the purchase price. Normally a bond sells at a discount when the stated interest rate of the bond is less than the current market interest rate. The discount is accreted to interest income over the life of the bond, increasing the stated interest rate of the bond to the market interest rate at the time of purchase.

Bond Equivalent

A yield based on a 365-day year with two semiannual coupon payments.

Bond Premium

The difference between the purchase price and the face value of a bond when a bond sells above par. Normally a bond sells at a premium when the stated interest rate is greater than the current market interest rate. The premium is amortized to interest income over the life of the bond, decreasing the stated interest rate of the bond to the market interest rate at the time of purchase.

Bond, Debenture

A bond for which there is no specific security, collateral, set aside or allocated for repayment of the principal.

Bond, Interim

Sometimes used before the issuance of permanent bonds to raise funds needed only temporarily. Synonymous with temporary bond.

Bond, Junk

Bonds rated lower than investment grade that yield higher rates of interest than the current investment-grade bond market.

Bond, Par

A bond selling at par, whose interest rate is in line with prevailing market interest rates.

Bond, Stripped

Bonds whose coupons have been clipped off. The principal and interest (coupons) are sold to separate groups of investors. Those seeking current income buy the strip of coupons, and those wanting a lump sum at maturity buy the principal or "corpus" portion. Because each portion is worth less than its whole, both are sold at a deep discount from their face values.

Bond, Treasury

A U.S. Government long-term security sold to the public with a maturity longer than five years.

Bond, Zero-Coupon

A security sold at a deep discount from its face value and redeemed at the full amount at maturity. The difference between the cost of the bond and its value when redeemed is the investor's return. These notes provide no interest payments to holders.

Book Value

(1) The amount at which a business carries an asset on the accounting books. (2) Book value is equal to face value less unamortized discounts, plus unamortized premiums, plus accrued interest, less depreciation, valuation allowances, and write-offs. (3) Equivalent to Carrying Value.

Branch Office

An office of a savings association physically separate from the home office that offers the same kinds of deposit and most loan services conducted at the home office.

Broker

An agent or middleman who does not actually own the securities or property he sells or buys. A broker, as opposed to a dealer, is always acting on behalf of another individual.

Broker-originated Deposit

Any deposit placed in a savings association by or through a deposit broker.

Brokerage Fee

A fee, usually referred to as a commission fee, charged by a broker for execution of a transaction. The broker may base the fee on an amount per transaction or a percentage of the total value of the transaction.

Bull Market

(1) A period of rising prices. (2) Opposite of bear market.

Buy-back Agreement

A provision in a sales contract stating that the seller will repurchase the asset sold within a specified period of time, usually for the selling price, if certain stated conditions exist. *See* Repurchase Agreement and Recourse.

Buying Hedge

Buying futures contracts to protect against possible increased cost of commodities or financial instruments that will be needed in the future. Also referred to as a long hedge.

Buying Long

Buying stocks, bonds, or commodities outright with the expectation of holding them for a rise in price and then selling.

C

Call

(1) An option to buy a specific security at a specified price within a designated period. (2) A demand by a lender for payment of a loan because of the failure of the borrower to comply with the terms of the loan. (3) A demand by the issuer of the redemption of stocks or bonds. *See* Put Option.

Call Option

An option that gives the option buyer the right to purchase – go long – the underlying futures contract at the strike price on or before the expiration date.

Call Price

The price at which a callable bond is redeemable. It is used in connection with preferred stocks and debt securities having a fixed claim. It is the price that an issuer must pay to voluntarily retire such securities. This often exceeds the par or liquidating price to compensate the holder of the called security for his or her loss of income and investment position resulting from the call.

Callable Bond

A bond that is redeemable by the issuer prior to maturity; for example, most Treasury bonds are callable five years before maturity at a specific price.

C and D

Cease and Desist Order.

Cap

(1) The maximum rate to which an ARM may adjust, also referred to as a ceiling. (2) A contractual agreement, akin to an insurance policy, in which a third party limits the interest that will be received or paid if interest rates increase by a predetermined number of percentage points, also referred to as an interest-rate cap.

Capital

Generally represents the owners' interest in the company's net assets. It is also called equity capital, stockholders' equity, and net worth. The capital of a company includes capital contributed by the owners' plus the retention of earnings over time.

Capital Asset

(1) An asset with an expected life of over one year and one that is not bought and sold in the normal course of business. (2) A fixed asset.

Capital Expenditure

Money spent for additions or improvements to structures or equipment used to carry on the activities of an organization or individual.

Capital Gain or Loss

The gain or loss incurred from the sale or disposition of assets other than inventory, such as investment securities, and real estate.

Capitalize

The treatment of large expenses as part of a firm's assets. Thus, rather than treating an expenditure as a deduction from the income statement, it is treated as an asset.

Capitalized Interest

Interest not expensed, but added to the carrying value of an asset. The purpose of capitalizing interest is to obtain a measure of acquisition cost that reflects the total investment in the asset. Interest is typically capitalized for assets that are constructed for a business's own use or for assets intended for sale or lease that are constructed as a discrete project. Refer to FASB Statement No. 34, *Capitalization of Interest Costs*.

Capitalized Loan

A loan to which all amounts due are added to the balance of the loan and all payments received are deducted from the balance of the loan. For example, each month as interest is earned and escrow payments become due, these amounts are added to the loan balance; when payment is received it is deducted from the loan balance. Any unpaid amounts become part of the loan principal.

Captive Insurance Company

An insurance company in which an association is required to purchase stock in order to receive insurance. Because the sale of the stock of a captive insurance company is restricted by contract and typically must be redeemed by the issuer, these investments are not subject to FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Carrying Amount of Loan

Recorded investment in the loan minus valuation allowances.

Carrying Value

(1) The amount at which an asset is carried on the books of a business. (2) Amortized cost – face value adjusted for unamortized discounts and premiums, accrued interest, depreciation, valuation allowances, and write-offs. (3) Equivalent to Book Value.

Cash Basis Accounting

(1) A method of accounting in which income and expense items are recorded and recognized when cash is received or disbursed. (2) Opposite of accrual basis accounting. The accrual basis of accounting must be used in the preparation of the Thrift Financial Report.

Cash Market

A market in which securities are traded for immediate delivery for a cash payment.

Cash Price

The price that a specific financial instrument is presently selling in the open market.

Cashier Checks

A check drawn by a financial institution on itself, signed by an institution's authorized officer and payable to a third party named by a customer making the withdrawal. *See* Official Checks.

CD

Certificate of Deposit.

Cease and Desist Order (C & D)

A demand from the courts or government agency that an entity cease an activity.

CEBA

Competitive Equality Banking Act of 1987.

Chattel Mortgage

A mortgage on personal property, such as an automobile or furniture, that is given as security to pay an obligation.

Certain Nonsecurity Financial Instruments (CNFI)

Unsecuritized financial instruments accounted for under FASB Statement No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. CNFIs include interest-only strip receivables, loans receivable, other receivables, or retained interests in securitizations that can be contractually prepaid or otherwise settled in such a way that the holder would not recover substantially all of its recorded investment.

Certificate of Deposit (CD)

A written document a financial institution issues to a depositor as evidence of its deposit. It includes the institution's promise to return the deposit at a specified future date with earnings at a specified rate of interest. It may be negotiable (transferable to another party) or nonnegotiable. The interest specified may adjust periodically according to a predetermined formula or index or may be fixed for the term of the deposit.

Certificate of Deposit (demand)

A negotiable or transferable receipt issued for funds deposited with a financial institution and payable on demand to the holder. These receipts normally do not bear interest and are used principally by contractors and others as a guarantee of performance of a contract or as evidence of good faith when submitting a bid. They may also be used as collateral.

Charge-off

The amount of loss to an asset that, when recorded, directly reduces the balance of an asset. Consequently, the loss is not established separately as a valuation allowance. *See* Write-off.

CIF

Collective Investment Fund.

Classified Assets

Assets, generally loans, whose value may not be recoverable. Such assets are classified as substandard, doubtful, or loss. Refer to OTS Regulation § 560.160.

Clear Title

A title to real or personal property that has no liens recorded against it and that is transferable to another party. Synonymous with good title, just title, and marketable title.

Closed Position

Forward or futures contracts offset in full are *closed* because the obligations cancel each other out.

Closed-end Credit

A loan where the entire amount is disbursed to the borrower. Overdraft privileges, credit cards, most home equity loans, and lines of credit are open-end rather than closed-end loans because, although they have a fixed ceiling, the association will not necessarily disburse the full amount of the line of credit.

Closed-end Mortgage

A mortgage with a prohibition against additional borrowing using the same lien. The prohibition against additional borrowing protects the existing creditors from having the security diluted.

Closing

Consummating a financial transaction. In mortgage lending, closing is the process of the delivery of a deed, the signing of loan documents, and the advancing of funds by the lender.

Closing Price

The price at which transactions are made just before the end of trading on a given day.

Closing Transaction

(1) The final transaction for a particular security during a trading day. (2) An option order that will eliminate or decrease the size of an existing option position.

CMO

Collateralized mortgage obligation.

CNFI

Certain nonsecurity financial instruments.

Collar

A maximum and minimum rate of interest that will be paid on the par value of a floating-rate note. *See* Interest-Rate Collar.

Collateral

Something of value pledged as security for a loan. The lender can repossess the collateral if the loan is not repaid.

Collateral Loan

A loan for which the borrower deposits certain property with the lender as a pledge of payment. The lender usually has the right to sell the property to pay off the debt if the borrower does not pay according to its term.

Collateral Mortgage

A document used with a loan that effects a lien on real estate, where the loan is not a purchase-money mortgage.

Collateralized Mortgage Obligation (CMO)

A multiclass, mortgage-backed security. An underlying pool of mortgages held by the issuer serves as collateral for the debt obligation, and principal and interest payments from the pool of mortgages are used to retire the CMOs. Typically, a single issue of CMOs contains three or more classes, tranches, of bonds having fixed or floating interest rates, and different lengths of maturity for each class of bond that provides a form of call protection to the holder of a CMO.

Collateral Trust Notes

Bonds secured by the deposit of other bonds or stocks, usually issued by holding companies, investment trusts, and railroads.

Collective Investment Fund (CIF)

The collective investment of fiduciary accounts. Generally includes accounts held by a trustee, executor, administrator or guardian. Used primarily to describe the collective investment of tax-qualified retirement plans. Also referred to as Group Trusts. *See* Common Trust Fund.

Combined Construction-Permanent Loan

Loans used to finance construction and that are converted to permanent loans upon completion of construction. Typically, the borrower makes no principal payments during the construction period, and upon conversion to a permanent loan begins to make both interest and principal payments.

Commercial Letter of Credit

An instrument by which a financial institution lends its credit to a customer to enable him to finance the purchase of goods. Addressed to the seller, the letter authorizes him to draw drafts on the financial institution under the terms stated.

Commercial Loan

Loans made to businesses for the financing of inventory purchases and operating expenses, as distinguished from personal loans or consumer credit loans. Commercial loans are typically short-term loans or acceptances.

Commercial Mortgage

A loan secured by real estate that is used, zoned, or intended for business purposes or multi-unit dwellings, or is part of a real estate investment portfolio.

Commercial Paper

An unsecured debt instrument issued by a corporation with a fixed maturity, typically for a short-term period (30, 45, 60, or 90 days). It is generally priced at a discount from par and is redeemable at par on the maturity date. Individual and corporate investors buy, sell, and trade commercial paper. .

Commissions

(1) A fee for services rendered. (2) The fees that a broker charges a customer for executing a trade.

Commitment

An advance agreement to perform in the future, such as to provide funds for a mortgage loan or to buy or sell securities. Commitments may be at a fixed interest rate or price determined on the commitment date or at a rate or price to be determined at closing date. Commitments may be in the form of a commitment letter or may be verbal.

Commitment Fee

(1) A fee paid by a borrower to a lender for the lender's promise to loan money at a future date. (2) In the secondary market, a commitment fee is a payment by a financial institution to a mortgage buyer, such as Freddie Mac, Fannie Mae, etc., for the buyer's promise to buy loans at a future date.

Common Stock

Securities that are evidence of proportionate equity or ownership of a corporation. They give the holder an unlimited proportionate interest in the corporation's earnings and assets after satisfaction of claims from creditors and the holders of preferred stock.

Common Trust Fund

The collective investment of fiduciary accounts. Generally includes accounts held by a trustee, executor, administrator or guardian. *See* Collective Investment Fund.

Community Reinvestment Act of 1977 (CRA)

Legislation that requires financial institutions to meet the credit needs of all segments of their communities, including low- and moderate-income neighborhoods.

Compensating Balance

A dollar amount equal to the lowest percentage of a line of credit that the customer of a financial institution is expected to maintain, usually in a demand deposit account, as a condition for being granted a line of credit.

Competitive Equality Banking Act of 1987 (CEBA)

Legislation passed by the U.S. Congress in 1987 that resulted in the following:

- Established the adoption of generally accepted accounting principles (GAAP) in financial reporting.
- Established classification of impaired assets.
- Changed appraisal standards.
- Affected minimum capital requirement provisions.
- Established capital forbearance.
- Mandated Troubled Debt Restructuring (TDR) disclosure.
- Gave the thrift industry the Qualified Thrift Lender test (QTL).

Compliance Exam

An examination of a savings institution to determine how well it is complying with federal law and regulations, particularly those dealing with consumer protection and nondiscrimination.

Compound Interest

The interest that accrues when earnings for a specified period of time are added to the principal, so that interest during subsequent periods is computed on the principal plus all accumulated interest.

Condominium

(1) A single dwelling unit in a multi-unit structure in which each unit is individually owned. (2) A form of real estate ownership in which the purchaser receives title to a particular unit in a project and proportionate interest in common areas.

Conforming Loan

A mortgage loan that conforms to specified limits such as loan-to-value ratio, term, interest rates, or other characteristics. Typically these conform to guidelines established by Freddie Mac, Fannie Mae, or Ginnie Mae.

Conservator/Conservatorship

An individual or institution the Court or the FDIC appoints to protect and conserve the assets of a troubled financial institution to facilitate liquidation, merger, or replacement of management. A conservatorship affects the control and operation of an institution or company but does not alter its ownership. *See* Receivership.

Consolidation

The results obtained when the accounts of a parent company and its majority-owned subordinate organizations are combined to reflect the financial position and results of operations of the group as if operated as a single entity. This involves intercompany eliminations and minority interest adjustments. *See* FASB Statement No. 94, APB Opinion No. 18, and ARB No. 51.

Consolidation Loan

A loan that combines several debts into one loan, usually to reduce the annual percentage rate or dollar amount of payments made each month, by extending them over a longer period of time.

Constant Prepayment Rate (CPR)

The percentage of principal amount of a pool of mortgages that have been or are expected to be prepaid on an annual basis over the life of a pool.

Construction Loan

A short-term interim loan for financing the cost of construction. The lender makes payments to the builder at periodic intervals upon completion of certain phases of construction as provided in the loan contract. *See* Loans in Process.

Consumer Credit

See Consumer Loan.

Consumer Loan

Loans to individuals or families where the proceeds are used for consumer purposes, versus business or investment.

Contingency Fund

Assets or other resources placed aside for unexpected expenditures, or for anticipated expenditures of an uncertain amount.

Contra Account

An account offset against another account. A contra account to an asset, contra-asset, has a credit balance and a contra account to a liability, contra-liability, has a debit balance. A contra account has no value in its own right and can only be stated in terms of the asset or liability to which it applies. Examples of contra-assets are discounts, deferred loan fees, and accumulated depreciation. An example of a contra-liability is a discount paid for deposits.

Contract Month

The month in which the futures contract may be fulfilled by making or taking delivery. Most interest rate futures contracts are liquidated prior to the contract month.

Conventional Mortgage

A mortgage originated by a financial institution without government insurance or guarantee.

Cooperative

A system of indirect ownership of a single unit in a multi-unit structure. The individual owns shares in a nonprofit corporation that holds title to the building. In turn, the corporation gives the owner a long-term proprietary lease on the unit. Also called a co-op.

Core Capital

One of three capital standards established for savings associations in 1989. Also known as Tier 1 Capital.

Core Deposits

The base of deposits a savings association expects to retain over relatively long periods. In the application of purchase accounting in a merger, a dollar amount is allocated to the value of retaining the core deposits and this amount is established as an intangible asset known as a core deposit intangible (CDI).

Correspondent Bank

A bank that is the depository for another depository institution, typically located in another city or marketing area. The correspondent bank provides services such as accepting deposits and collection of loan payments for the other depository institution.

Cost of Capital

The rate of interest that an association must pay to a third party to borrow money or raise equity capital.

Cost of Funds

The interest paid or accrued on savings and borrowings, expressed as a percent of the average total savings and borrowings during a given accounting period.

Coupon

A tab attached to a bond, which can be torn off and presented to collect an interest payment at a given date.

Coupon Rate

The rate of interest paid on a particular security. For mortgage-backed securities, the word coupon is customarily used to describe the stated contract interest rate.

Coupon Strips

Ordinary bonds, typically, U.S. Treasury bonds, purchased and then repackaged so that the rights to interest and principal payments are sold separately. The effect is to transform a regular interest-paying security into zero-coupon securities. *See* Bond, Strip.

Covered Interest Arbitrage

Investing dollars in an instrument denominated in a foreign currency and hedging the resulting foreign exchange risk by selling the proceeds of the investment forward for dollars.

CRA

Community Reinvestment Act of 1977.

Credit

Any amount that, when posted, will increase the balance of a liability, income, or capital account or decrease the balance of an asset or expense account. Liability, capital, and income accounts normally have credit balances, and asset and expense accounts normally have debit balances.

Credit Risk

The potential for a borrower to default on all or part of a loan and, consequently, the potential for the value of the loan held by a savings association to decrease.

Cross-hedge

A hedge transaction whereby the correlation between the two items being hedged is similar but not perfect. For example, hedging a commercial loan with a Ginnie Mae futures contract.

D

DBLA

Domestic Building and Loan Association.

Dealer Reserve Accounts

Refundable amounts held as collateral in the purchase of installment notes from a dealer. For example, a savings association purchases $100,000 in installment notes from a dealer for the full face amount for which it pays $90,000 to the dealer and holds the remaining $10,000 as collateral. The $10,000 held as collateral is a dealer reserve account.

Debenture

A debt instrument secured only by the general credit of the issuer. A corporate obligation sold as an investment.

Debit

Any amount that, when posted, will increase the balance of an asset or expense account and decrease the balance of a liability, income, or capital account. Asset and expense accounts normally have debit balances; and liability, capital, and income accounts normally have credit balances.

Debt

Money owed by one person or entity to another.

Debt Securities

A security representing borrowed funds that must be repaid. Examples of debt securities include bonds, certificates of deposit, commercial paper, and debentures.

Deed

A written agreement in proper legal form that conveys title to, or an interest in, real property.

Deed in Lieu

A deed given by a borrower to a lender to repay a mortgage loan and avoid foreclosure. A deed given in lieu of foreclosure.

Default

Failure to do what the law requires or to carry out the terms of a contract.

Defer

To delay payment to a future time.

Deferred Expense

An expense paid before the corresponding benefit is fully received, such as a prepaid insurance premium. For accounting purposes, the expense is recorded as an asset until benefit is obtained, and may be prorated over a number of subsequent accounting periods.

Deferred Income

Any income received before it is due or before it is earned. Rent paid in advance is an example of deferred income received during one accounting period but earned in a later accounting period. Deferred income is generally recorded as a liability until it is earned, at which time it is taken into income. Interest received in advance is also deferred income; however, instead of being recorded as a liability, interest received in advance offsets the balance of the loan to which it applies.

Deferred Loan Fee

A loan fee, also referred to as points, typically received at loan closing. Deferred loan fees are considered interest paid in advance. Once the loan is disbursed, the deferred loan fee is reported on the balance sheet as a contra-asset to the loan and is accreted to interest income. *See* FASB Statement No. 91.

Deficiency Judgment

A court order that authorizes the collection from the debtor of the part of the debt remaining unsatisfied after foreclosure and sale of collateral.

Delinquency

Failure to make payment on a debt when due.

Demand Deposit Account

A noninterest-bearing account from which a depositor may withdraw funds immediately without prior notice. Since funds may be withdrawn on demand in person or by presentation of a check, the account has many of the liquid characteristics of circulating currency. *See* FDIC Regulations §§ 329.1, 329.101, and 329.102.

De Novo Association

A newly chartered savings association.

Deposit

Money placed in a depository institution for safekeeping. Includes demand – usually checking – accounts, savings – passbook – accounts, time deposits, negotiable certificates of deposit, money market accounts, etc. Most deposits are interest bearing.

Deposit Broker

A person or entity engaged in the business of placing funds or facilitating the placement of funds of third parties in accounts issued by a depository institution.

Depository Institution

A financial intermediary that accepts savings and demand deposits from the general public.

Depreciation

The gradual decline in the value of a property over its useful life. Depreciation is recognized through a systematic charge-off of the cost less salvage value over the estimated useful life. It is a bookkeeping entry that does not involve any cash outlay.

Direct Investment

Investment by savings associations directly in the equity of a venture, as opposed to investment in a debt instrument. With direct investment, an association actually owns all or part of a venture, rather than loaning money to finance the venture.

Discharge of Lien

The recorded release of a lien when debt has been repaid.

Discount

The difference between the purchase price and face value of a security when the face value exceeds the purchase price. Normally a security sells at a discount when the stated interest rate of the security is less than the current market interest rate. The discount is accreted to interest income over the life of the security, increasing the stated interest rate of the security to the market interest rate at the time of purchase.

Discount Bond

See Bond Discount.

Discount Loan

A loan on which the amount disbursed at closing equals the face amount of the loan less interest that will be earned over the life of the loan, and sometimes miscellaneous charges. The borrower must repay the full face amount of the loan. *See* Add-on Interest.

Discount Paper

Short-term non-interest-bearing securities issued at a price below par. The difference between the purchase price and the amount redeemed at maturity is accreted to interest income over the life of the security.

Discount Rate

(1) The rate representing the amount of money deducted from the face value of a note. (2) The add-on rate of interest charged to Federal Reserve System member banks for borrowing at the discount window.

Discount Securities

Short-term noninterest-bearing debt instruments issued at a price below par and redeemed at maturity for full face value; usually short-term such as Treasury bills.

Discount Window

A “window” available to Federal Reserve System members that allows them to borrow against collateral.

Discounted Cash Flows

Anticipated net cash receipts from an investment discounted to present value under the theory that cash received in the future has a lesser value than the same amount of cash received today. Several assumptions must be made in this calculation: estimated cash flows, timing of the cash flows, and the discount rate used.

Dividend

A portion of the net profits the Board of Directors officially declares for distribution to the shareholders. A dividend is paid at a certain rate for each share of stock held by each stockholder, such as, at ten cents per share.

Dividend, Extra

Distribution of excess profits over and above the regular dividend.

Dividend, Scrip

A promissory dividend payable in the future. The directors vote to withhold actual cash dividend until a certain future event has taken place.

Dividend, Stock

A payment of stock in lieu of a cash dividend on a pro rata basis according to the amount of stock held by each stockholder.

Docket Number

A five-digit number the OTS assigns to each savings association it regulates. The number is used to file and retrieve all financial, organizational, and regulatory data regarding that institution.

Dollar Reverse Repurchase Agreement

A financial transaction similar to a reverse repurchase agreement in which a dealer loans money by buying a security and agreeing to sell it back to the customer at a higher price at a later date. In a dollar reverse repurchase agreement (dollar reverse repo) the dealer does not sell back the exact same security but another, substantially identical security. *See* Repurchase Agreement

Domestic Building and Loan Association (DBLA)

Defined in the IRS Tax Code as a domestic or federal savings and loan association whose principal business is acquiring savings deposits from the public and investing in loans. Savings associations may substitute the IRS DBLA test for the Qualified Thrift Lender (QTL) test.

Doubtful Assets

(1) Those assets that will probably not bring full value upon liquidation. (2) A classification of assets under OTS Regulations. *See* Classified Assets.

Duration

(1) The number of years required to receive the present value of future payments, both interest and principal, from a bond. To determine duration, calculate the present value of the principal and each coupon, and then multiply each result by the period of time before payment is to occur. (2) The concept of duration relates the sensitivity of bond price changes to changes in interest rates.

Dwelling Unit

(1) A unified combination of rooms, whether existing or under construction, designed for residence by one family. (2) Living quarters consisting of contiguous rooms providing complete independent facilities for living, eating, cooking, sleeping, and sanitation.

Dwelling Units, One- to Four-

(1) Single-family dwellings in detached or semidetached structures including manufactured housing. (2) Permanently financed units in a condominium or cooperative arrangement, where the owner of each unit has an undivided proportional interest in the underlying real estate and common elements of the structure. (3) Structures consisting of two- to four-dwelling units.

Dwelling Units, Five or More

A structure, or structures, containing five or more dwelling units; also referred to as multi-family residential property. This mortgage classification includes:

- A single mortgage secured by five or more dwelling units in one structure, or in semi-detached or detached structures.
- The construction financing of condominium or cooperative apartments until the construction phase is complete because the units are in structures containing five or more units and are covered by one mortgage.
- Fraternity/sorority houses offering sleeping accommodations, living accommodations for students or staff of a college or hospital, and retirement homes with sleeping and eating accommodations that are not condominiums or cooperatives. In these cases, the number of bedrooms in the structure will be the number of dwelling units.
- Mobile home parks.

This category does not include the construction of single-family dwellings in one project, even though it may involve only one construction loan. In this case, the future use of the property as single-family dwellings and the fact that the dwellings are in detached or semi-detached structures determines the classification.

E

Education Loan

An advance of funds for the purpose of financing a college or vocational education.

Effective Rate

The actual yield of interest as opposed to the stated rate. For deposits, the effective rate of interest is based on the accounting method used to compute interest and the frequency of compounding. For loans, the effective rate is the stated interest rate plus fees and charges prorated over the life of the mortgage.

EITF

Emerging Issues Task Force of the Financial Accounting Standards Board (FASB).

Employee Stock Option Plan (ESOP)

An employee benefit where employees receive as compensation equity shares (stock) of the employer. Stock acquired for this purpose by a loan or guarantee of the employer is transferred to a trust. The loan is then typically paid off through dividends received on the stock and through additional contributions from the employer.

Equity Investment

Investment in the ownership of property or a business where the investor's profit depends on the profit of the underlying investment. The investor may receive a specified rate of return dependent on the profit of the underlying investment.

Equity Kicker

Added to a stated rate of return, the investor participates in the profits of the underlying investment.

Equity Loan

A loan that uses the borrower's equity in real property as collateral; also called a home equity loan. The loan may be for a variety of purposes. It is typically an open-ended second or junior mortgage loan.

Equity Method

A method of accounting for an equity investment in another company or joint venture. The carrying value of the investment reflects a share of the acquired firm's increases (or decreases) in retained earnings. Example: If association A purchases 20% of association B's stock and association B earns $3 million after taxes during the next year, association A will increase the carrying value of its investment by 20% of $3 million, or $600,000. If association B pays half of its earnings in cash dividends, association A will decrease its investment by $300,000. *See* APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*.

Equity to Assets Ratio

Total equity divided by total assets. This ratio provides information on the proportion of total assets provided by shareholders, owners, on any given date. A high equity ratio may indicate the existence of a protective buffer in the event the company suffers a loss.

Equity to Liabilities Ratio

Total equity divided by total liabilities.

Escrow

A written agreement under which funds transferred from one party to another are placed with a third person or entity, usually a depository institution, acting as custodian. The custodian completes the transfer to the second party only upon the fulfillment of certain specified conditions. For purposes of the calculation of deposit insurance premiums, escrows are included as deposits.

ESOP

Employee stock ownership plan.

Eurobond

A bond issued for release by a U.S. or other non-European company or government for sale in Western Europe. In that market, corporations and governments normally issue medium-term securities with maturities of 10 to 15 years.

Eurodollars

Deposits denominated in U.S. dollars at banks and other financial institutions outside the United States. Although this name originated because of the large amounts of such deposits held at banks in Western Europe, similar deposits in other parts of the world are also called Eurodollars.

EWP

Early withdrawal penalty. A penalty for withdrawing funds from a time savings account prior to a stated date.

Excess Loan Servicing

(1) An asset established prior to FASB Statement No. 125 when loans were sold to yield a different rate than their contractual rate and the seller retained servicing. (2) The present value of the difference between the amount to be collected from the borrower and the amount to be paid to the purchaser of the loans. (The point spread differential less normal servicing costs represents the excess servicing amount that is recorded at the time of sale, increasing the gain or decreasing the loss on the sale.) Refer to FASB Statement No. 65, *Accounting for Certain Mortgage Banking Activities*, FASB Statement No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, FASB Technical Bulletin 87-3, and EITF Consensus 86-38.

Exercise

To execute the right granted under the terms of a contract. To exercise a call, holders exchange the call option position for a long futures position. To exercise a put, holders exchange the put option position for a short position in T-Bond futures.

Exercise Price

See Strike Price.

Expense

The costs of resources used to create, or intended to create, revenues.

F

Face Value

The sum of money denoted on the principal or “face” side of a financial instrument representing: (1) the amount of money the issuer promises to pay at maturity and (2) the amount on which interest is computed. Synonymous with par value.

Fair Market Value

The price at which property transfers from a willing seller to a willing buyer, each of whom has a reasonable knowledge of all pertinent facts concerning the property in question and similar properties on the market, and neither being under any compulsion to buy or sell.

Fannie Mae Pool

Mortgage-backed security that represents a proportional undivided ownership interest in a pool of mortgage loans where the full and timely payment of principal and interest is guaranteed by Fannie Mae.

Farmers Home Administration (FmHA)

A federal government agency that finances and insures loans to farmers and other qualified borrowers for rural housing and other purposes.

FASB

Financial Accounting Standards Board.

FDIC

Federal Deposit Insurance Corporation.

Federal Deposit Insurance Corporation (FDIC)

A government corporation that insures deposits in savings associations and commercial banks. The FDIC administers the Savings Association Insurance Fund, SAIF, providing deposit insurance to savings associations, and the Bank Insurance Fund, BIF, providing deposit insurance to commercial banks.

Federal Funds

Overnight, unsecured loans of funds between banks. Generally considered as funds that are immediately available and invested only for one business day, they are typically treated as cash equivalents. Federal funds can be bought and sold for periods ranging from 10 to 90 days and thus referred to as term federal funds transactions.

Federal Housing Administration (FHA)

The FHA is a division of the Department of Housing and Urban Development whose activities include insuring residential mortgage loans under a nationwide system. This enables lenders to loan a higher percentage of the value of the underlying property. FHA loans generally require a down payment of not less than five percent of the original amount of the loan.

Federal Home Loan Banks (FHLBs)

Twelve regional banks of the Federal Home Loan Bank System that provide credit to member savings associations.

Federal Home Loan Bank Board (FHLBB)

A former independent agency in the executive branch of the federal government that regulated and supervised the savings and loan industry, the Federal Home Loan Banks, the Federal Savings and Loan Insurance Corporation, and the Federal Home Loan Mortgage Corporation. In 1989, FIRREA abolished the FHLBB and transferred its functions to other agencies, including the Office of Thrift Supervision.

Federal Home Loan Bank System

The group made up of the Federal Housing Finance Board, twelve regional Federal Home Loan Banks, and member savings associations. The fundamental purpose of the System is to serve as a central credit facility for member associations.

Federal Home Loan Mortgage Corporation (Freddie Mac)

A private corporation authorized by Congress, Freddie Mac is a secondary market facility under the supervision of the Department of Housing and Urban Development. Freddie Mac is authorized to buy conventional whole mortgage loans and sell participation certificates secured by pools of these conventional mortgage loans.

Federal Housing Finance Board (FHFB)

An independent agency in the executive branch of the federal government that replaced the FHLBB in its authority to govern the Federal Home Loan Bank System. Its duties are:

- To supervise the Federal Home Loan Banks.
- To ensure the Federal Home Loan Banks carry out their housing finance mission.
- To ensure the Federal Home Loan Banks remain adequately capitalized and able to raise funds in the capital markets.
- To ensure the Federal Home Loan Banks operate in a safe and sound manner.

Federal National Mortgage Association (Fannie Mae)

A government-sponsored but privately owned secondary mortgage market corporation that supplements private mortgage funds by buying FHA, VA, and conventional loans and issuing mortgage-backed securities.

Federal Reserve Board

The seven governing members of the Federal Reserve System who are appointed by the President of the U.S. for 14-year terms. Board members play an important role in determining the country’s monetary policy, which, in turn, strongly influences economic activity.

Federal Reserve System

The system of independent central banks that influences the United States’ money supply and credit through its control of bank reserves. Federal Reserve actions impact security prices. For example, restriction of bank reserves and lending ability in an attempt to restrain inflation tends to drive up interest rates and drive down security prices over the short run. Also called the Fed.

Federal Savings & Loan Insurance Corporation (FSLIC)

A government corporation the National Housing Act established in 1934 that insured deposit accounts in federal savings associations, federally chartered national savings banks, and state-chartered savings associations that were members of the Federal Home Loan Bank System. Under the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989, the Savings Association Insurance Fund, SAIF, replaced the FSLIC as an insurer. All assets and liabilities of FSLIC were transferred to the FSLIC Resolution Fund.

FHA/HUD

Federal Housing Administration/Housing and Urban Development

FHLB or FHLBank

One of the twelve district banks of the Federal Home Loan Bank System.

FHLBB

Federal Home Loan Bank Board.

FHLMC

Federal Home Loan Mortgage Corporation. Also known as Freddie Mac.

Fiduciary

Someone who is entrusted with the care of another person's money, property or other items of value. Acting in a fiduciary capacity generally includes acting as a trustee, executor, administrator, registrar of stocks and bonds, transfer agent, assignee, receiver, guardian or conservator of the estate of a minor or incompetent, investment adviser, any capacity in which you possess investment discretion on behalf of another, or any other similar capacity.

Finance Subsidiary

A savings association's subsidiary whose sole purpose is to issue securities, typically preferred stock or mortgage-backed securities, that the parent itself is authorized to issue directly – or, if the parent is a mutual association, is authorized to issue if it converted to the stock form – and to remit the net proceeds of such securities to its parent association.

Financial Accounting Standards Board (FASB)

An accounting organization established in 1973 that is responsible for establishing generally accepted account principles (GAAP). FASB is a self-regulated organization whose impact affects accounting firms and practitioners.

Financial Futures

A futures contract based on financial instruments or indices.

Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA)

An act of Congress to reform, recapitalize, and consolidate the federal deposit insurance system, and to enhance the regulatory and enforcement powers of federal financial institutions' regulatory agencies. FIRREA established the Office of Thrift Supervision (OTS), the Federal Housing Finance Board, the FSLIC Resolution Fund, the Resolution Trust Corporation, and the Resolution Funding Corporation. FIRREA dissolved the Federal Home Loan Bank Board (FHLBB) and Federal Savings and Loan Insurance Corporation (FSLIC).

FIRREA

Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

First Mortgage

A mortgage that creates a lien against real property. A first mortgage has first priority against other claims in the event of foreclosure. Also called a senior or first lien.

Fiscal Year

Any consecutive 12 months designated as the time frame for financial reporting and preparation of balance sheets, profit and loss statements, and other financial summations.

Fixed Assets

Those tangible assets, such as office buildings, furniture, fixtures, and equipment, used in the operation of a business that are not intended to be sold in the normal process of the business.

Fixed-rate Mortgage

A mortgage in which the interest rate and the amount of each interest and principal payment remain constant throughout the life of the loan.

Floating-rate Securities

A security whose interest rate varies or floats in relation to a specific index or benchmark, such as the rate on Treasury securities, LIBOR, etc.

Floating-rate Tranches

CMO tranches that have rates that adjust in the same direction, and by the same amount, as an index such as LIBOR.

Floor Planning

Commercial loans that finance automobile or mobile home floor stock (dealer inventory).

FmHA

Farmers Home Administration.

FNMA

Federal National Mortgage Association or Fannie Mae.

Forbearance Agreement

A verbal or written agreement providing that the savings association will delay exercising its rights in the case of a mortgage loan foreclosure as long as the borrower performs certain agreed-upon actions.

Foreclosure

Legal process protecting the mortgagee should the mortgagor default on the mortgage, whereby the mortgagee obtains title to the collateral.

Foreign Exchange Rate

The price of one currency denominated in another currency such as the value of British pounds expressed in U.S. dollars.

Forward Commitment or Forward Commitment Contract

Agreement between a buyer and seller to purchase or sell a specified amount of mortgages or securities at an agreed-upon price, and at a specified future date. Sometimes called a forward delivery contract or forward coverage.

Forward Delivery

Delivery of loans or securities to be made at a future date.

Freddie Mac

FHLMC, Federal Home Loan Mortgage Corporation.

Freddie Mac Participation Certificate (PC)

A mortgage-backed security, guaranteed by the Federal Home Loan Mortgage Corporation as to the timely payment of interest at the certificate rate and the ultimate collection of principal, which represents a proportional undivided ownership interest in a pool of mortgage loans. Generally, each PC group contains fixed-rate equal installment conventional residential mortgage loans with original terms to maturity of between 10 and 30 years.

FRR

SEC Financial Reporting Release.

FSLIC

Federal Savings and Loan Insurance Corporation.

FSLIC Resolution Fund

A fund FIRREA established to assume all the assets and liabilities of FSLIC. The RTC managed the FSLIC Resolution Fund. The RTC was dissolved in December 1995, upon the satisfaction of all debt and liabilities and the sale of all assets assumed by it.

Funded Debt

Debt that is usually long-term, for which certain assets have been set aside to satisfy the debt.

Futures Call Option

An option contract that gives the buyer the right to assume a long T-Bond futures position at a fixed strike price any time prior to the contract's expiration date. When assigned, a call option seller automatically assumes a short futures position.

Futures Contract

An agreement to take (by the buyer) or make (by the seller) delivery of a specific commodity on a particular date. The commodities and contracts are standardized so that an active resale, secondary, market will exist. Futures contracts are available for a variety of items including grains, metals, and foreign currencies.

Futures Price

The price of a contract for delivery of a specific dollar amount of a standardized financial instrument in a designated future month.

Futures Put Option

An option contract that gives the buyer the right to assume a short T-Bond futures position, at a fixed strike price, any time prior to the contract's expiration date. When assigned, a put option writer automatically assumes a long futures position.

G

GAAP

Generally accepted accounting principles.

Gap

The imbalance between the maturities (or repricing) of assets and liabilities of a financial institution; a measure of that imbalance. Gap refers to a specific time interval, such as a 30-day gap, which is the degree to which assets repricing within 30 days exceed or fall short of liabilities repricing in 30 days. *See* Net Portfolio Value Model.

General Valuation Allowance

A contra-asset established against receivables and investments based on the amount expected to be collected. General valuation allowances are established for the purpose of covering probable but not specifically identifiable credit losses. *See* Allowance for Loan and Lease Losses and Specific Valuation Allowance.

Generally Accepted Accounting Principles (GAAP)

The basic principles of accounting promulgated either through authoritative sources such as the Financial Accounting Standards Board (FASB), the American Institute of Certified Public Accountants (AICPA), or, if no written standards exist, through widespread common practices.

GIC

Guaranteed Investment Contract. *See* Bank Investment Contract (BIC).

Government National Mortgage Association (Ginnie Mae)

A wholly owned U.S. government corporation, known as Ginnie Mae, which is part of the Department of Housing and Urban Development (HUD). Ginnie Mae guarantees the timely payment of principal and interest on mortgage-backed securities that represent an interest in a pool of mortgages insured by the VA or FHA, and are backed by the full faith and credit of the United States government.

Ginnie Mae Certificates

Mortgage pass-through securities with the full and timely payment of principal and interest guaranteed by Ginnie Mae. A Ginnie Mae certificate represents a proportional, undivided ownership interest in a pool of fixed-rate mortgage loans. Also known as Ginnie Mae Pools.

Ginnie Mae Pool

See Ginnie Mae Certificates.

Goodwill

The premium exceeding fair value of net identifiable assets of an acquired association in a purchase business combination.

Government Sponsored Enterprise (GSE)

Privately owned corporations supervised by the U. S. Government. GSEs include Fannie Mae and Freddie Mac who are supervised by the Office of Federal Housing Enterprise Oversight (OFHEO), a part of HUD. Federal Home Loan Banks are also GSEs and are supervised by the Federal Housing Finance Board.

Graduated-payment Adjustable Mortgage Loan (GPAML)

A graduated payment mortgage that has a variable interest rate. The initial scheduled payment is insufficient to pay all the interest due. The unpaid interest increases the principal of the loan and the scheduled payments increase over the term of the loan so the loan will fully amortize at maturity.

Graduated-payment Mortgage (GPM)

A graduated payment mortgage with a fixed interest rate. The initial payment is lower than that on a standard fixed-rate mortgage and is insufficient to pay all the interest due. The unpaid interest increases the principal of the loan and the scheduled payments increase over the term of the loan so the loan will fully amortize at maturity.

Grandfather Clause

Any condition that ties existing rights or privileges to previous or remote conditions or acts. More popularly used when a new regulation goes into effect, to exempt associations already engaged in the activity being regulated.

Gross

The total amount before any deductions.

Gross Income

Total income before deducting expenses.

Gross Margin

See Net Interest Margin.

GSE

Government Sponsored Enterprise.

Guaranteed Student Loans

Education loans primarily made by banks, savings and loan associations, and credit unions, and some colleges, payment of which is guaranteed by the federal or state government.

H

Hedging

The matching of assets to liabilities of a similar nature; the assumption of one risk calculated to offset another. The buying or selling of offsetting positions to protect against an adverse change in price or interest rates. In mortgage banking, the purchase or sale of mortgage futures contracts to offset cash market transactions to be made at a later date.

HMDA

Home Mortgage Disclosure Act.

Holding Company

A corporation or other entity that owns a majority of voting stock or securities of another corporation, thus obtaining control of the other corporation. Section 1730a of the National Housing Act (NHA) defines a savings and loan holding company as follows: “savings and loan holding company means any company which directly or indirectly controls an insured institution or controls any other company which is a savings and loan holding company by virtue of this subsection”. NHA defines control as owning 25 percent or more of the voting stock. Also referred to as Thrift Holding Company.

Home Equity Loan

Revolving, open-end loans secured by a one- to four-family property and extended under lines of credit. Although residential property secures home equity loans, in some cases they may not have an appraisal meeting OTS standards, or may not have a sufficient loan-to-value level and, thus, are classified as a nonmortgage loan.

Home Improvement Loan

A loan usually not secured by a recorded lien on the property and usually short-term, made to a property owner for such improvements as maintenance and repair, additions and alterations, or replacement of equipment or structural elements.

Home Loan

A residential mortgage loan secured by a one- to four-family property.

Home Mortgage Disclosure Act (HMDA)

A law that requires the annual disclosure of mortgage loan data by depository institutions, service corporations, and mortgage banking subsidiaries located in metropolitan statistical areas. Institutions subject to the Act are required to disclose data on all mortgage loans and home improvement loans that they originate and purchase each year.

Hypothecated Deposit

Deposits accumulated until the sum of the payments equals the entire amount of principal and interest on the contract, at which time the loan is considered paid in full. Typically state law determines the handling of hypothecated deposits. In reporting Schedule SC, you should net hypothecated deposits against the related loans.

I

Income

Money or its equivalent, earned or accrued, arising from the sale of goods or services.

Income Tax

A tax on annual earnings and profits of a person, corporation, or organization. Traditionally, there are federal, state, and city taxes, although not all states and not all cities tax income.

Index

A price indicator such as LIBOR or T-Bill rates. The repricing of the interest rate on an adjustable rate mortgage is typically governed by an index rate. Rate movements of the mortgage are adjusted to correspond to movements in the index. The index rate generally is a published interest-rate series that is readily verifiable by the borrower and not under the control of the lender.

Individual Retirement Account (IRA)

Special accounts where you can save and invest, where the taxes generally are deferred until money is withdrawn. These plans are defined by statute and are subject to frequent changes by Congress. Withdrawals of tax-deferred contributions are generally taxed as income, including the capital gains from such accounts. Withdrawal prior to a specified retirement age or for purposes other than those specified by law may be subject to a tax penalty. Types of IRAs include Keogh Plans, Roth IRAs, and Education IRAs.

Initial Margin

The amount of deposit a broker initially requires to purchase securities on behalf of an investor. *See* Margin.

Insolvent

(1) A condition in which the value of liabilities exceeds the value of assets according to some accounting standard such as generally accepted accounting principles (GAAP). That is, net worth, or capital, is negative. (2) The state of being unable to pay debts when demanded by creditors at maturity.

Installment

The regular, periodic payment to repay a debt that a borrower agrees to pay. .

In-substance Foreclosure

A situation in which the lender considers the collateral underlying a loan repossessed in substance by the lender and accounts for it at its fair value, consistent with generally accepted accounting principles (GAAP). In-substance foreclosure occurs when the debtor formally or effectively abandons control of the collateral to the creditor.

Interest

A fee paid for using money that belongs to another, usually expressed as an annual percentage of the amount used. A financial institution makes periodic payments of interest to savers for the use of their deposited funds. A borrower pays interest on a loan to the financial institution for the use of its funds.

Interest-only (I/O) Strip

The interest portion of a security (debt security or mortgage security). The owner of an IO strip receives only the interest payments of the security. The owner of an IO strip of a mortgage pool security receives only the interest payments on the cash flow of the underlying mortgages.

Interest-rate Cap

See Cap.

Interest-rate Collar

(1) A contractual agreement that limits the interest paid or received if the interest rates increase or decrease by a predetermined number of percentage points. (2) A two-sided cap.

Interest-rate Swaps

A transaction that involves two parties exchanging their interest payment obligations – no principal is exchanged – on two different kinds of debt instruments, one bearing a fixed interest rate and the other a floating interest rate. If a savings association has fixed-rate assets and floating-rate liabilities, it typically will swap its floating rate payment for a fixed-rate payment to match liability repricing to asset repricing.

In-the-Money

An option with a favorable price opportunity. The strike price is less than market for a call and above the market for a put.

Intrinsic Value

The amount by which an option is in-the-money. For call options, it is the current T-Bond futures price minus the strike price if the difference is a positive number. For put options, it is the strike price minus the current price of T-Bond futures if the difference is a positive number. *See* Swap.

Inverse Floater

An asset that adjusts in the opposite direction of the movement of interest rates. Generally the inverse floater adjusts by a multiple of an interest-rate index. It is usually repriced based on a formula containing a multiple of the LIBOR rate. For example, if an inverse floater adjusts at an inverse of 1.25 times LIBOR, a decrease of two basis points in LIBOR would result in an increase in the rate of the inverse floater of 2.5 (2 x 1.25) basis points.

Inverse-floating Rate Tranches

CMO tranches that have adjustable rates that adjust in the opposite direction as an index such as LIBOR. Frequently, the rate adjusts by a multiple of the change in the index.

Investment

The use of capital to create more money, either through income-producing vehicles or through more risk-oriented ventures designed to result in longer term capital gains.

Investment Accounts

Accounts that range from short-term, highly liquid securities, such as U.S. Treasury Bills, to long-term railroad equipment trust certificates that are not always liquid. In between, there are debentures, floaters, notes, put bonds, and cushion bonds, along with a broad array of short-term money market instruments. Investment accounts may be trading accounts, available-for-sale, or held-to-maturity.

I/O

Interest Only.

I/O Strip

Interest-only strip. The interest portion of a security (debt security or mortgage security). *See* Interest-only Strip.

IRA

Individual Retirement Account.

Issuer

One who issues securities to others.

J

Joint Venture

Any joint undertaking between two or more parties in such legal form as joint tenancy, tenancy in common, partnership, or a corporation.

Judgment

A formal decision given by a court. A judgment against a property is generally a lien against the property. *See* Lien.

Junior Lien

A lien that is subordinate to the claims of prior lien(s) or mortgage(s). *See* Second Mortgage.

Junk Bonds

Bonds issued by companies without long track records of sales and earnings. These bonds are more volatile and pay higher yields than investment-grade bonds.

L

Land Loan

Loan for unimproved land, developed building lots, and the acquisition and development of land.

Letter of Credit

A document issued by a financial institution on behalf of its customer authorizing a third party, or in some cases the customer, to draw drafts on the institution up to a stipulated amount and with specified terms and conditions. The letter of credit is a conditional commitment, except when prepaid by the customer, on the part of the institution to provide payment on drafts drawn in accordance with the terms of the document.

Liabilities

Debts incurred but not paid. For savings associations, liabilities consist of deposits, borrowings including long-term debentures, and other liabilities.

LIBOR

London Interbank Offered Rate. An international interest-rate index, similar to the federal funds rate of banks in the United States. It is commonly used as a repricing index for various financial instruments such as ARMs, CMO tranches, and interest-rate swaps.

Lien

A claim by one person or entity on the specific property of another and that serves as security for a debt. The security interest in real estate created by a mortgage. A lien is typically recorded in the legal jurisdiction (county) in which the property is located.

Line of Credit

A pre-established loan authorization with a specified borrowing limit extended by a lending institution to an individual or business. Most lines of credit are unsecured; however, certain lines of credit, such as home equity loans, are secured by the borrower's equity in property. A line of credit allows borrowers to obtain a number of loans without re-applying each time as long as the total of borrowed funds does not exceed the pre-established credit limit.

LIP

Loans-in-process.

Liquidation

Closing a savings association by paying the claims of insured depositors and other secured creditors. Liquidation may be a voluntary decision made by the board of directors, or may be mandated and executed by the FDIC.

Liquidity

The amount an entity holds in cash and other assets quickly convertible into cash without significant loss.

Loan

Money advanced by one entity to another to be repaid within a specified time, typically with a specified rate of interest, as set forth in a note or other evidence of indebtedness. Loans may be unsecured or secured by real or personal property but do not represent an equity interest in the underlying security for the lender. *See* Mortgage Loan.

Loan Loss Reserve

A contra-asset set up to compensate for anticipated losses from loans. *See* Allowance for Loan and Lease Losses. *See* FASB Statement No. 114.

Loan Origination

The steps a lending institution takes to obtain a borrower and underwrite a loan up to the time a loan is booked, including soliciting, processing applications, appraising, and closing.

Loan Origination Fee

The initial service charge that a lending institution imposes on a borrower for underwriting a loan. *See* Origination.

Loan Participation

(1) The purchase of portions of outstanding loans by investors, who then participate on a pro rata basis in interest and principal payments; (2) a loan or package of loans in which two or more lenders share ownership. *See* Participation Loan.

Loan Portfolio

The total loans held by a financial institution or other lender, at a given time.

Loans-in-process

Loans that an association closed, but the full principal of which has yet to be disbursed. Generally, these are construction loans that are typically disbursed in stages as construction is completed. The full amount of a loan is recorded on the savings association's books at closing, with the undisbursed portion recorded in the contra-asset account called loans-in-process. Report loans on the TFR net of loans-in-process.

Loans to Facilitate

A mortgage loan in which the lender provides a borrower with funds at a high loan-to-value ratio and/or below-market interest rates to facilitate the borrower's acquisition of a piece of property owned by the lender.

LOCOM

Lower of cost or market.

Long

(1) As a noun, one who has bought futures contracts and has not yet offset that position. (2) As an adverb –going long – the action of taking a position in which one has bought futures contracts without taking the offsetting action. The long protects against declining rates of interest.

Long-term, Fixed-rate Tranches

CMO tranches that have fixed rates and are expected to mature in five years or more.

Long-term Planned Amortization Classes (PACs)

CMO tranches that have fixed rates, a prioritized repayment schedule within certain prepayment speeds, and expected maturity of more than five years. Targeted Amortization Classes (TACs) are considered to be substantially similar to PACs for reporting purposes.

Long-term PAC Support Tranches

CMO tranches that have fixed rates, expected maturity of more than five years, and are part of a CMO structure that contains a PAC or TAC tranche(s).

Loss

(1) The amount of all expenses exceeding revenues for a period or for a transaction. (2) A classification of assets under OTS regulations where recovery is unlikely. *See* Specific Valuation Allowance, Classified Assets.

Lower-of-Cost-or-Market (LOCOM)

An accounting method used to establish the amount at which certain assets are recorded. The amount established is the lower of the cost of the asset or the current market value. Under this method, assets must be written down if the market value falls below amortized cost but the asset may never be written up to a market value above amortized cost.

LTV

Loan-to-value. The ratio of a loan to the appraised value of the property securing the loan.

M

Maintenance Margin

Additional assets required by a broker on a margin account due to decreases in the market value of the securities that guarantee the margin account. *See* Margin.

Majority Stockholders

Stockholders whose share of voting stock is so large that they can exercise control over the corporation. . Generally, an ownership of 20% or more is deemed to constitute control.

Majority-owned Subsidiary

A subsidiary whose parent company, or parent’s majority-owned subsidiaries, owns more than 50 percent of the outstanding voting capital stock.

Mandatory Convertible Securities

Subordinated debt instruments that are eventually transformed into common or perpetual preferred stock within a specified period of time. Generally, there are two types: (1) equity contract notes - securities that oblige the holder to take common or perpetual preferred stock of the issuer in lieu of cash for repayment of principal; and (2) equity commitment notes - securities that are redeemable only with the proceeds from the sale of common or preferred stock.

Mandatory Delivery

A lender's commitment to deliver loans or securities or pay a penalty.

Margin

(1) The amount of deposit money that a securities broker requires from an investor to purchase securities on credit. (2) An amount of money or securities deposited by buyers and sellers of futures contracts and short options to ensure performance of the contract terms, such as, the commitment to make or take delivery of the commodity or the cancellation of the position by a subsequent offsetting trade at such price as can be attained. Margin in commodities is not a payment of equity or down payment on the commodity itself, but rather is in the nature of a performance bond or security deposit. *See* Initial Margin and Maintenance Margin.

Mark-to-Market

An accounting procedure by which assets are recorded at current market value, which may be higher or lower than their purchase price or book value. Examples of the use of mark-to-market accounting are: purchase accounting, pushdown accounting, and accounting for certain securities. See FSAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*.

Market Value

(1) The price established in a competitive market where buyers and sellers meet to buy and sell similar products. (2) A price determined by supply and demand factors rather than by management. (3) The price at which an owner is prepared to sell and an unrelated buyer is willing to buy.

Marketable Title

Title to property that is free from a claim, lien, charge or defect and that will not be subject to legal objection. Also known as perfect title, clear title, and good title.

Maturity

The date on which the principal balance of a debt becomes due and payable. The date when a debt is paid in full.

Maturity Mix

The variety of assets found in an investment portfolio that vary in terms of length, such as 90-day Treasury bills, 20-year corporate bonds, etc.

MBS

Mortgage-backed security.

MCD

Mandatory Convertible Debt.

Merger

The combining of two or more entities either through one purchasing the assets and liabilities of the other(s) or the pooling or combining of two or more entities into one new entity.

Minority Interest

The portion of net worth of a subsidiary relating to shares not owned by the controlling company or other members of the combined group. Example 1: A parent owns 75% of the controlling interest in Company B; therefore, there is a 25% minority interest in Company B. Example 2: A parent owns 50% of the voting stock of Company B and 100% of Company C; Company C owns 25% of Company B. Therefore, the parent effectively controls 75% of Company B and there is a 25% minority interest in Company B.

MMDA

Money Market Deposit Accounts.

Mobile Home

A movable, portable dwelling without permanent foundation, designed for year-round living.

Mobile Home Certificates

Variations of the Ginnie Mae certificate. Fully guaranteed, pass-through securities that are collateralized by mobile home loans.

Mobile Home Loan

A loan to finance the purchase of a mobile home, secured by the lender's claim on the mobile home. The loan may include funds for associated costs such as transportation of the mobile home and setup on a new site.

Monetary Policy

Federal Reserve Board policy that pertains to the control of credit availability, and thus interest rate levels.

Money Market Deposit Accounts (MMDA)

A savings account offered by Federal savings associations in accordance with 12 U.S.C. §1464(b)(1) and by state-chartered savings associations in accordance with applicable state law on which market rates of interest may be paid if issued subject to certain limitations. Limitations include: (1) Minimum of seven days' notice required prior to withdrawal or transfer. (2) Transfers limited to no more than six per calendar month.

Money Market Fund

The combined money of many individuals jointly invested in high yield financial instruments such as U.S. government securities, certificates of deposits, and commercial paper. A money market fund is a mutual fund that strives to make a profit by buying and selling various forms of money rather than buying and selling shares of ownership in corporations.

Mortgage-Backed Security (MBS)

A security backed by a participation of a pool of mortgages, the owners of which participate in receiving payments of principal and interest. *See* Mortgage Derivative and Mortgage Pool Security.

Mortgage Banker (1) A firm or individual who, acting as a broker, originates loans and then sells them to investors. A mortgage banker may retain the servicing rights to the loans it originates, but does not retain the loans as an investment (all loans held by a mortgage banker are held for sale).

(2) A firm or individual who brings a borrower and lender together, receiving a commission if a loan is made.

Mortgage Derivative

Any variety of mortgage-backed securities of complex structures whose payments to investors are derived from the cash flows of mortgages, but in which the cash flows from the mortgages are not passed through proportionately to the holders of the securities.

Mortgage Loan

An advance of funds from a lender, the mortgagee, to a borrower, the mortgagor, secured by real property and evidenced by a document called a mortgage. The mortgage sets forth the conditions of the loan, the manner and duration of repayment, and the rights of the mortgagee to repossess the pledged property if the mortgagor defaults.

Mortgage Loans Outstanding

The total amount of money that is owed by mortgagors (borrowers).

Mortgage Origination

The making of a new mortgage. *See* Loan Origination.

Mortgage Participation

The division of a mortgage or pool of mortgages into units owned by one or more investors, who participate in receiving payments of principal and interest. *See* Loan Participation.

Mortgage Pool Security

A number of mortgages combined and issued as a single security. Repayments from the mortgages in the pool are passed through to the investor(s) proportionate to ownership interest and with the same timing with which they are received. The security provides each investor with a proportional ownership interest in the underlying collateral.

Mortgage Portfolio

All mortgage loans or obligations held as assets by a financial institution or other lender.

Mortgage-backed Bonds

Bonds secured by mortgages. Unlike mortgage-backed pass-through securities, mortgage-backed bonds do not convey ownership of any portion of the underlying pool mortgages. However, mortgage-backed bonds do offer a more predictable maturity and thus offer a form of call protection.

Mortgage-Backed Securities

A security collateralized by mortgages.

Mortgagee

The financial institution, group, or individual that lends money secured by real estate. The lender.

Mortgagor

Real estate owner who pledges real estate as security for a loan. The borrower.

Multifamily Residential Property

Property containing five or more dwelling units. An apartment building, a residence hall for students or employees, a retirement complex, etc. *See* Dwelling Units, 5 or More.

Municipal Bond

A tax exempt debt obligation issued by a state or local government agency to raise funds for the public good, such as for building low-income housing, improving streets, or building bridges. The bonds are redeemed with interest and are backed by the government’s taxing authority. Municipal bonds are generally exempt from Federal income taxes.

Municipal Deposits

Deposits of state and local government funds, which, under the laws of certain jurisdictions, are secured by the pledge of acceptable securities or by a surety contract (depository bond) to directly protect these funds. *See* Preferred Deposits.

Mutual Association

A savings association that issues no capital stock, but is owned and controlled solely by its savings depositors, who are called members. Members do not share in profits, but they exercise other ownership rights such as electing the board of directors.

Mutual Fund

A mutual fund pools the funds of many investors and provides professional management in investing those funds. Also called an open-end investment company. *See* Proprietary Mutual Funds.

N

National Bank

A commercial bank organized with the consent and approval of the Office of the Comptroller of the Currency and operated under the supervision of the Federal government. National banks are required to be members of the Federal Reserve System and must purchase stock in the Federal Reserve Bank in their district.

Negative Amortization

Any increase in the loan balance arising from a mortgage payment being too small to pay all the interest due that month. The lender effectively makes the borrower an additional loan at the mortgage rate for the amount of unpaid interest. This additional loan must be repaid over the remaining term of the mortgage.

Negotiable Order of Withdrawal (NOW) Account

A savings account with characteristics of a checking account. An account holder can withdraw funds by writing a negotiable order of withdrawal payable to a third party. NOW accounts may earn interest.

Net

That which remains after making certain designated deductions from the gross amount.

Net Assets

The assets of an individual or entity remaining after all obligations have been met. Assets minus liabilities. The owners' equity.

Net Income

Gross income less expenses, including taxes, but before dividends.

Net Interest Margin

Interest income less interest expense, before the inclusion of noninterest income and deduction of noninterest expense. This is the gross margin for financial institutions.

Net Loss

The excess of expenses and losses over revenues and gains during a specified period of time. A negative net income.

Net Operating Income

Net interest margin less provision for losses and operating expenses plus noninterest income.

Net Operating Loss (NOL)

A loss for tax purposes that can be applied against net income from prior periods (NOL carry-back) or subsequent periods (NOL carry-forward) to reduce the tax liability of those periods.

Net Portfolio Value Model

A model used by the OTS to measure each association's exposure to interest rate risk by estimating how a change in interest rates affects the market value of its assets, liabilities, and off-balance-sheet.

Net Present Value

Sum of the future cash flows (positives and negatives) discounted to present value under the theory that money received today is worth more than the same amount received in the future.

Net Profit

See Net Income.

Net Realizable Value (NRV)

The estimated sales price from a property, reduced by the sum of:

(1) Direct selling expenses such as sales commissions, cost of title policy, etc.

(2) Costs of completion or improvement necessary for sale.

(3) Direct holding costs, net of rental or other income, including taxes, maintenance, insurance, and cost of all capital, debt and equity, during the period held for sale.

Net Undistributed Income

Profit earned but not distributed to stockholders.

Net Worth

The owner's equity. Assets less liabilities, deferred income, redeemable preferred stock, and minority interest. Also called net assets, equity, stockholders' equity, and equity capital. *See* Capital.

NOL

Net operating loss.

Nominal Interest Rate

The stated or contractual interest rate in a loan agreement, bond, or other security, which may differ from the effective interest rate.

Nonconforming Loans

A real estate mortgage loan is **nonconforming** if the unpaid principal balance or unexpired term exceeds lending limits set by purchasers or guarantors of mortgages in the secondary market – Freddie Mac, Fannie Mae, etc.

Nonmortgage Loan

An advance of funds not secured by a lien on real estate. *See* Loan.

Nonperformance

The failure of a contracting party to provide goods or services according to an agreement.

Nonperforming Assets

Assets that do not earn income, including those originally acquired to earn income (delinquent loans) and those not intended to earn income (fixed assets). Typically assets originally acquired to earn income are deemed nonperforming when (1) full payment of interest or principal is no longer anticipated, (2) principal or interest is 90 days or more delinquent even if the asset is still in accrual status, or (3) the maturity date passes and payment in full has not been made. Nonperforming loans that are restructured continue to be considered nonperforming until a cash payment from the borrower brings the loan current under its restructured terms; for instance, a loan cannot be taken out of the nonperforming category simply by restructuring the loan.

Nonresidential Mortgage Loan

A mortgage loan secured by nonresidential property such as an office building, store, factory, church, or vacant land.

Note

An instrument that bears the recognized legal evidence of debt. A note is signed by the maker (borrower) and promises to pay a specified sum of money to the lender at a certain future date and place.

Notional Principal

The amount of principal underlying an interest rate swap transaction, and upon which the swap payment calculation is based. *See* Interest-rate Swaps.

NRV

Net Realizable Value.

O

Oakar

An "Oakar" savings association is a savings association (OTS-regulated institution) that belongs to one insurance fund, generally the Savings Association Insurance Fund (SAIF), and has acquired deposits insured by a secondary insurance fund, generally the Bank Insurance Fund (BIF), by means of a so-called "Oakar transaction." The most common Oakar transaction occurs when a SAIF-member acquires deposits from a BIF-member, either by means of a whole-institution acquisition or through a branch acquisition. The reverse, namely, the acquisition of SAIF-insured deposits by an OTS-regulated, BIF-member ("BIF HOLA" savings association), is also considered an "Oakar transaction."

OBS

Off-balance-sheet.

Occupancy Rate

The percentage of space or units that are leased or occupied. The inverse of the vacancy rate.

Off-balance-sheet

An asset or obligation that in accordance with GAAP you do not report on the balance sheet. Such as commitments to originate loans, undisbursed loan balances, unused letters of credit, etc.

Offer

An expression of willingness to sell something at a given price; opposite of bid.

Offering

An issue of securities or bonds presented for sale. An offering may be public (open to anyone wishing to buy) or private (predetermined buyers or market).

Office of Thrift Supervision (OTS)

An office of the Treasury Department of the Federal government. The OTS was established in 1989 by FIRREA to succeed the Federal Home Loan Bank Board for chartering and regulating federal savings associations.

Official Checks

A financial institution's check drawn on its own account for paying its operating expenses and other debts. *See* Cashier's Checks.

Offset

The process used to close an open futures option; for instance, to sell after having previously purchased, or to buy after having previously sold.

Open Position

An outstanding position in a futures contract, which has not been offset. If not covered prior to maturity, the trader is liable for taking or delivering the underlying commodities.

Open Repo

A repo with no definite term that can be terminated by either party. The rate paid is typically higher than that paid on overnight repos and is subject to adjustment on a day-to-day basis.

Open-end Credit

An unsecured line of credit that may be used repeatedly up to an established overall limit. Commonly known as revolving credit or a line of credit, in which the customer may pay in full or in installments. A finance charge is assessed on the unpaid balance. The term does not include negotiated advances under an open-end real estate mortgage or a letter of credit. *See* Line of Credit.

Open-end Mortgage

A mortgage that by mutual agreement may have the balance or maturity extended to provide additional funds to the mortgagor. *See* Home Equity Loan.

Operating Assets

Those assets that contribute to the regular income from business operations, such as loans and investments; the opposite of which are nonoperating assets, such as real estate held for future use and non-income-producing intangibles such as goodwill. Nonperforming assets that were acquired with the intent to produce operating income are included in operating assets.

Operating Capital

Funds available for use in financing daily business activities.

Operating Expense

Any expense incurred in the normal operation of a business. This is distinguished from capital expenditures, which are disbursements that are capitalized and depreciated over a period of years.

Operating Income

Income generated in the ordinary course of business. For savings associations, income generated by the customary lending and deposit-taking business.

Operating Losses

Losses incurred in the normal operation of a business.

Option

A right to buy or sell specific securities or properties at a specified price within a specified time. (1) Call option: The right but not the obligation to purchase a specific amount of a specific commodity or security at a specified price before a specified date. The seller (writer) grants such right to the buyer of the call. (2) Put option: The right to sell a specific amount of a commodity or security to the writer of the put at a specific price on or before a specific date. The buyer of a call or put pays to the seller (writer) a "premium" for being granted the right. There are options on actual securities or commodities as well as options on futures contracts.

Option buyer (Holder)

A person who holds the rights granted by the option contract.

Option Seller (Writer)

A person who, in exchange for receiving the premium, agrees to assume the opposite side of an option contract at a fixed price any time prior to the contract's expiration date.

Originate a Loan

To make or issue a loan; the process whereby a lender qualifies a borrower, appraises the collateral, processes all documents, advances funds, and places the loan on its books.

Origination Fee

A charge imposed by a lender for evaluating, preparing, and processing loan applications.

OTS

Office of Thrift Supervision.

Out-of-The-Money

An option where the strike price exceeds market for a call and is less than market for a put.

Over-Collateralization

Providing collateral in excess of what is needed to support the principal amount of secured debt. It is viewed as using two separate loan pools. One pool provides sufficient cash flow to support the debt; the other pool subsidizes cash flow shortfalls for loans with losses or delinquencies.

Overdraft

A draft or check written for an amount that exceeds the funds in the account on which the check is drawn. An overdraft, if not covered immediately by the writer of the check, essentially becomes a borrowing.

Overnight Money

(1) Any money that is replaced daily. (2) Funds loaned by one financial institution to another overnight, including but not limited to the federal funds market. A means for firms to earn interest on undrawn funds in their operating account at the end of the business day.

P

P & I

Abbreviation for principal and interest. This is customarily used to describe the regular monthly checks that the servicer pays to the registered owner of the mortgage-backed securities.

P/O

Principal-only.

P/O Strip

Principal-only strip.

PAC

Planned Amortization Class.

Paid-In-Capital

The amount of capital in excess of the par value of common stock contributed to a corporation by its owners.

Paper Gain Or Loss

An expression for unrealized gains or losses on securities in a portfolio, based on comparison of current market quotations and the original costs.

Par Value

(1) The value assigned to a share of stock by the issuer at the time the stock is first offered for sale. The par value may be more or less than the market value. (2) The value of a bond or note at maturity. (3) The face value of a security.

Partially Amortizing Loan

A loan in which the periodic payments cover all of the interest charges but only part of the principal, therefore an unpaid balance is left when the loan matures. *See* Balloon Loan.

Participation

(1) Ownership by two or more lenders or investors of all or a portion of a single mortgage or a package of mortgages. (2) The cooperative origination by two or more lenders of a single, usually large, mortgage loan. *See* Loan Participation.

Participation Certificate (PC)

A document that describes a package of loans and the portion that is being bought or sold. *See* Freddie Mac Participation Certificate.

Participation Loan

(1) A loan made by one lender, known as the lead lender, in which one or more other lenders, known as participants, own a part interest. (2) A loan originated by two or more lenders. (3) A loan having two or more banks as creditors. *See* Loan Participation.

Pass-through

This term, as used for mortgage-backed securities, signifies that the interest and principal payments due and/or paid on the underlying mortgages are passed through to the holders of the securities on a *pro rata* basis.

Pass-through Securities

Securities that convey ownership of a fraction of each mortgage in a pool of mortgages backing the security. Each security owner shares proportionally the interest and principal payments generated by the underlying pool of mortgages.

Passbook Account

A savings account that normally requires no minimum balance, or a nominal minimum balance of perhaps $50 to $100, no minimum term, no specified frequency of deposits, and no notice or penalty for withdrawals. A periodic statement mailed to the depositor has generally replaced the actual passbook, in which transactions are recorded.

Passbook Loan

A loan secured by funds in a savings account on deposit with the same association originating the loan. The pledged funds may not be withdrawn during the life of the loan. *See* Share Loan.

Past Due

An account on which payment has not been made according to the terms of the loan document. Delinquent.

Payables

A bookkeeping term for any accounts or notes payable.

Payoff

The complete repayment of loan principal, interest, and any other sums due. Payoffs result from either installment payments over the full term of the loan or lump sum payments, including payments made on the sale of the underlying collateral.

PC

Participation Certificate.

PCCR

Purchased credit card relationship.

Pension Fund

A fund set up to collect regular premiums from employees and/or their employers, invest those premiums safely and profitably, and pay out a monthly income to employees who retire after reaching a specific age and length of service.

Permanent Mortgage Loan

A mortgage that is not a construction loan. Typically permanent mortgage loans are fully amortized for a period of 20 years or more. However, this classification also includes balloon mortgages and short-term mortgage loans that are not construction loans.

Permanent, Reserve, or Guaranty Stock

Par value of common stock outstanding. *See* Common Stock.

Personal Check

A check drawn on a depository institution by an individual against the individual's own funds, as opposed to a check drawn against a business account.

Planned Amortization Class (PAC)

The PAC feature of a security creates a reserve or sinking fund that attempts to ensure the planned maturity for the bond or CMO tranche. Therefore, the payments on a PAC security are virtually insulated from prepayment risk. *See* Short-term Planned Amortization Classes and Long-term Planned Amortization Classes.

Pledged Assets

Assets pledged as collateral security against liabilities.

Pledged Deposits

Deposits to which a security interest has been attached or perfected by a creditor. Also called loans on deposits and share loans.

PMI

Private mortgage insurance.

Point

An amount equal to one percent of the principal amount of an investment or note. Loan discount points are a one-time charge assessed at closing by the lender to increase the yield on the mortgage loan to a competitive position with other types of investments.

Pool

A large group of mortgages which back a mortgage security. *See* Mortgage Pool Security.

Pooling-of-Interest Method

A method of accounting for a merger of two or more similar business entities. The criteria for using the pooling method are discussed in APB Opinion No. 16.

In the pooling-of-interest method, assets, liabilities, and capital of the combining associations are added together on a line-by-line basis without any adjustments for current market value. The current carrying value (typically, historical costs adjusted for amortization of premiums and depreciation and accretion of discounts) of each asset, liability, and capital account of the disappearing association is added to the corresponding account of the surviving association.

In the reporting period in which the merger occurs, income and expense is reported as though the entities had been combined for the entire period. *See* Purchase Method.

Portfolio

Holdings of securities by an individual or entity. A portfolio may contain any marketable or potentially marketable investment such as bonds, mortgages, debt securities, equity securities, etc.

Position

Having a position in a futures contract means to have bought or sold a contract that has not been offset. *See* Open Position.

Positive Gap

An excess of assets repricing during a period of time over liabilities repricing during the same period; an asset sensitive position. *See* Gap.

Preferred Deposits

Deposits of states and political subdivisions in the U.S. that are secured or collateralized as required under state law. *See* Municipal Deposits.

Preferred Stock

Capital stock with preferences or special rights attached. *For example,* a stockholder may have a preferred position to receive dividends and/or proceeds in liquidation. Preferred stock typically yields a stated rate of interest, dividends, that may be cumulative or noncumulative. Preferred stock may be redeemable by the holder or nonredeemable.

Premium

(1) The amount, often stated as a percentage, paid in addition to the face value of a note or bond to adjust the yield to market. (2) A fee charged for the granting of a loan – points. (3) The price paid for an insurance contract. (4) A product given free or sold at discount, offered as an inducement to the public to open or add to a savings account, or to purchase other specified products or services. (5) The price paid by the buyer of an option contract. *See* Discount.

Prepayment

A payment made before its due date. For example, a 30-year mortgage may be prepaid after ten years if the mortgagor sells the property and the purchaser does not assume the mortgage. Borrowers typically prepay loans when interest rates fall and they can obtain cheaper financing.

Prepayment Clause

A provision in a promissory note stating the amount a borrower may repay ahead of schedule without incurring a penalty.

Prepayment Penalty

A fee assessed by a lender on a borrower who repays all or part of the loan principal before it is due. The prepayment penalty compensates the lender for the loss of interest that would have been earned had the loan remained in effect for its full term.

Present Value

The discounted value of a certain sum to be paid in the future, based on the theory that cash received today is worth more than the same amount of cash received in the future. *See* Net Present Value.

Price

The amount of money a seller receives for goods or services sold. Price is the amount of money actually received by the seller, not necessarily the amount originally asked for or the face value. In the buying and selling of bonds and mortgages, price is stated as a percentage of the face value of that instrument. For example, if sold at par, the price is 100 percent of the face value; a premium price could be 105 percent; and a discount price could be 95 percent of face value. *See* Premium, definition 1, and Discount.

Prime Rate

The interest rate charged by leading banks to their most secure customers. The prime rate tends to be a yardstick for general trends in interest rates. The interest on adjustable rate loans is sometimes stated in terms of the prime rate. For example, the rate of an adjustable rate loan may be stated as fifty basis points (0.5%) over prime.

Principal

(1) The amount of funds borrowed. (2) At closing, the face amount of a loan. (3) The amount of debt, exclusive of accrued interest, remaining on a loan.

Principal-Only

An account that does not charge interest on the remaining balance, so that payments are credited to principal only.

Principal-Only Strip (P/O)

A security from which the interest coupons have been separated. The owner of a P/O strip of a mortgage pool receives only the principal payments on the cash flow of the underlying mortgages. *See* Interest-Only Strip.

Private Mortgage Insurance (PMI)

Insurance policies written by private companies insuring lenders against loss resulting from defaults on mortgages. Generally, OTS will recognize only those insurance companies whose PMI is accepted by Fannie Mae or Freddie Mac, for purposes such as calculating high LTV and the risk weighting of a loan.

Profit

The excess income after all costs and expenses are paid. Net income.

Profit and Loss Statement

A summary listing a firm’s total revenues and expenses within a specified period of time. Also called a statement of operations or an income statement.

Profitability

A firm's ability to earn a profit and its potential for future earnings.

Promissory Note

A written promise to pay a specific sum of money to a specified party under conditions mutually agreed upon. Also called a note, promise, or bond.

Proprietary Mutual Funds

Those funds where the savings association, its affiliates, or its subsidiaries act as investment advisor to the fund.

Prospectus

A written offer to sell property or a security that provides a detailed description of what is being sold, including its characteristics and quality.

Prospectus Supplement

A document supplementing the Prospectus, disclosing pertinent information relating to the specific series of securities that are being issued. It includes stated maturities, repayment periods under different scenarios, specific financial assumptions as to the composition of the underlying collateral, the capitalizations of the issuer, and other terms relevant to the series.

Provision for Loan Losses

A charge to expense for loan losses. *See* Valuation Allowance, Allowance for Loan and Lease Losses, Specific Valuation Allowances, Charge-off, Write-off.

Purchase Method

A method of accounting for a business combination as the acquisition of one enterprise by another. The criteria for using the purchase method are discussed in APB Opinion No. 16.

In an acquisition accounted for under the purchase method, the assets and liabilities of the disappearing association must be recorded on the books of the surviving entity at fair value. The fair value of an asset is generally its market or appraised value. The fair value of liabilities is generally their present value using an appropriate discount rate. The carrying values of the capital accounts of the disappearing association are not carried forward onto the books of the surviving association. To the extent possible, the cost of the acquisition must be allocated to each identifiable asset or liability being acquired. Identifiable assets can be tangible (such as securities or mortgage loans) or intangible (such as core deposit base). Any excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities is recorded as goodwill.

The adjustments to record purchased assets at fair value due to interest rate fluctuations are reported as a direct adjustment to assets. Adjustments to purchased deposits are reported on SC715, Unamortized Yield Adjustments on Deposits; adjustments to any other liability are reported as a direct adjustment to the liability.

Purchase-money Mortgage

A mortgage where the purpose of the loan is to purchase the property securing the loan.

Purchased Credit Card Relationships

The premium paid to acquire established credit card accounts from a financial institution. Buyers pay a premium over the dollar value of the credit card accounts themselves in order to acquire the customer loyalty in an established line of business.

Push-down Accounting

A method of accounting used when an entity changes ownership. The purchase cost to the new owner is pushed down to the entity, thereby marking all assets and liabilities to market. This is also known as new-basis accounting. At the date of acquisition, the purchased entity is given a new basis, which is valued at market.

Put Option

A buyer acquires the right to sell a specific security, at a specified strike price, at any time before the expiration of the option.

Q

QTL

Qualified Thrift Lender.

Qualified Thrift Lender (QTL)

A savings institution that qualifies for low cost advances from its Federal Home Loan Bank by virtue of having at least a certain percentage of its assets in housing-related investments. Institutions may use the HOLA QTL test or the Internal Revenue Service tax code Domestic Building and Loan Association (DBLA) test.

R

Rate of Return

The measure of income from or profitability of an investment. *See* Return on Investment and Yield.

Rate-Sensitive Asset

An asset that will experience a change in its market value over some specific time period due to changing interest rates in the market.

Rate-Sensitive Liability

A liability that will experience a change in its market value over some specific time period due to changing interest rates in the market.

Real Estate

Land and all physical property attached to the land. Includes all physical substances below, upon, or attached to land; thus houses, trees, and fences are classified as real estate. All else is personal property.

Real Estate Investment Trust (REIT)

An organization, usually corporate, established for the accumulation of funds for investing in real estate holdings, or the extension of credit to others engaged in real estate construction. These funds are usually accumulated by the sale of shares of ownership in the trust.

Real Estate Loan

A loan fully secured by real estate, regardless of how the proceeds will be used.

Real Estate Mortgage Investment Conduit (REMIC)

A mortgage securities vehicle authorized by The Tax Reform Act of 1986. The REMIC rules authorize a new entity (a REMIC) to hold commercial or residential mortgages and issue securities representing interests in those mortgages. The REMIC itself generally is exempt from Federal income tax, and the income from the mortgages held by the REMIC is taxed to the holders of the REMIC regular and residual interests.

Real Estate Owned (REO)

A term frequently used by lending institutions to describe ownership of real property, generally acquired as a result of foreclosure.

Receivables

Accounts receivable owned by a business. These may be pledged as collateral for a loan secured from a bank or other financial institution, known as factored receivables, and classified as a secured commercial loan.

Receiver/Receivership

A party appointed by a court or the FDIC to manage property subject to litigation, or the property and affairs of a bankrupt financial institution. The receiver maintains and manages the property in the interest of lenders or creditors until a final disposition of the property is made. A receivership ends the corporate existence of an institution; it removes the institution from its owners, who lose their equity interest. *See* Conservator.

Recorded Investment in a Loan

The principal balance of the loan less direct write-downs, adjusted for related discounts or premiums and other yield adjustments. Carrying value before deducting valuation allowances. *See* Schedule SC, Mortgage Loans.

Recourse

The rights of a holder in due course of a negotiable instrument to force prior endorsers to meet their legal obligations by making good the payment of the instrument if dishonored by the maker or acceptor. The holder in due course must meet the legal requirements of presenting and delivering the instrument to the maker of a note or acceptor of a draft, and must find that this legal entity is in default. *See* Residual.

Recovery

The collection of money on a loan that you previously charged-off.

Refinancing

The repayment of a loan with funds from a new loan secured by the same property as the first loan. The new loan may be secured from the same lending institution or a different one, and typically has a modified interest rate or maturity date. *See* Restructured Debt.

Registration Statement

A document containing a prospectus and other information required by the SEC in transactions involving public offerings, such as the issuance of CMOs. The registration statement enables a series or, in the case of a shelf registration, several series of securities to be offered.

REIT

Real Estate Investment Trust.

Release

(1) The discharge of property from a mortgage lien. (2) A written statement that an obligation has been satisfied.

REMIC

Real Estate Mortgage Investment Conduit.

Rent

Income received from leasing property.

REO

Real estate owned.

REPO

Repurchase Agreement.

Reporting Period

The period for reporting the statement of operations and activity of an entity. This may be any number of days or months, normally one, three, six, or twelve months. The reporting period for the TFR is three months. The reporting period for Cost of Funds is one month.

Repossession

The reclaiming or taking back of items purchased on an installment sales contract on which the buyer has fallen behind in payments and consequently defaulted.

Repriced at Maturity

An asset or liability that carries a fixed interest rate during its term and, therefore, cannot reprice until maturity.

Repricing

A feature of some specific assets and liabilities, where the interest rates (and possibly other associated features) change, based on predetermined terms and schedules. This feature may occur periodically or only once.

Repurchase Agreement (REPO)

A financial transaction in which an organization borrows money by selling securities and simultaneously agreeing to buy them back later at a higher price, generally less than 30 days. Repurchase agreements are commonly called “repos”, and they function similarly to a secured loan with the securities serving as collateral. In a resale agreement, the organization, in effect, loans money by buying securities and agreeing to sell them back to the borrower later at a higher price. In either case, the difference between the bought and sold price of the securities constitutes the yield on the transaction. *See* Resale Agreement.

Resale Agreement

A financial transaction in which an organization lends short-term money by buying securities and simultaneously agreeing to sell them back later at a higher price. *See* Repurchase Agreement.

Reserve

(1) A valuation allowance. (2) A portion of retained earnings that has been set aside for the purpose of assuming liabilities. (3) Cash set aside to absorb losses or contingencies that have not yet occurred but are foreseen. *See* Valuation Allowances.

Reserve For Bad Debts

See Bad Debt Reserve.

Reserve Requirements

The portion of deposits in transaction accounts that member banks are required to maintain with a Federal Reserve Bank.

Residential Mortgage

A loan extended with residential real estate as collateral.

Residual

(1) Defined in 12 CFR Part 567.1 as any balance sheet asset that represents an interest, including a beneficial interest, created by a transfer of financial assets that qualifies as a sale under GAAP and that exposes the institution to a credit risk that exceeds a pro rata share of the institution's claim on the transferred assets. The transfer of assets may be through securitization or otherwise; the credit risk may be directly or indirectly associated with the transferred assets; and the exposure to credit risk may be through either subordination provisions or other credit enhancement techniques.

(2) Purchased or retained beneficial interests in securitized financial assets.

(3) The tranche of a CMO that represents the difference between the cash flows received on the mortgages collateralizing the CMO and the required interest payments to holders of all other tranches. The residual tranche represents an equity interest in the CMO.

Restructured Debt

Debt that has been restructured by adding to the outstanding principal balance or by modifying the terms of the debt. Restructured debt involves debt of borrowers who may or may not be experiencing financial difficulty. *See* Troubled Debt Restructuring.

Retained Earnings

An equity capital account comprised of accumulated unallocated profits from the current and all prior reporting periods. Retained earnings are the profits that are neither paid out in cash dividends to stockholders nor used to increase other equity accounts.

Return on Assets

A financial measurement of how efficient a business is in using its assets. Return on assets is the ratio of net income divided by average total assets.

Return on Equity

A measure of how effective a business has been in investing its net worth. Return on equity is expressed as a ratio, calculated by dividing net income by average equity.

Return On Investment

The rate, usually expressed on a bond equivalent basis, needed to equate the present value of future cash flows with a given purchase price for that issue. It assumes that periodic cash distributions can be reinvested at the same rate.

Revenue

All earnings received from selling a firm's product or service during a given period.

Revenue Bonds

Issued by state and local governments whereby the revenues from a project, such as a toll bridge, repay the borrowing. In contrast to a general obligation bond backed by the taxing power of an issuer.

Reverse Repurchase Agreement

See Repurchase Agreement.

Revolving Credit

A line of credit extended to customers to use as often as desired up to a certain dollar limit. The line of credit may be paid in full upon receipt of a monthly statement or paid off in several installments, in which case an interest charge is added.

Risk

The possibility that a loss will occur if a debt is not paid.

Risk-Controlled Arbitrage

A method used to fund long-term assets with short-term liabilities, using a hedge to reduce interest-rate risk. For example, using repurchase agreements (short-term) to purchase mortgage-backed securities (long-term) and using a futures contract to hedge against rising interest rates.

Rollover

The practice of reinvesting capital and interest of one investment into a substantially identical new investment.

S

Safety Factor

The difference between net income from collateral and the payment of interest on a funded debt. *See* Spread.

SAIF

Savings Association Insurance Fund.

Sale and Servicing Agreement

In secondary market transactions, a contract under which the seller/servicer agrees to supply, and the buyer to purchase, loans from time to time. The contract sets forth the conditions for the transactions and the rights and responsibilities of both parties.

Sale-leaseback

The sale of property that is then leased back to the seller. *See* FASB Statement No. 28, *Accounting for Sales with Leasebacks.*

Sales Draft

An instrument that arises from using a bankcard that obligates the cardholder to pay money to the card issuer.

Sallie Mae (SLMA)

Student Loan Marketing Association.

Salvage

An attempt to recover some portion of a loan that has been written off the bank's books.

SAM

Shared-Appreciation Mortgage.

Sasser

A SAIF-insured institution that has a bank charter and, therefore, that we do not regulate.

Satisfaction of Judgment

The legal procedure followed when a debtor pays the amount due as determined by the court in a judgment.

Savings

The amount of income that is not consumed.

Savings Account

Money that is deposited in a depository institution, normally not subject to withdrawal by check. Savings accounts usually bear interest. Also called passbook accounts.

Savings Association Insurance Fund (SAIF)

A fund, administered by the FDIC, insuring deposits of member savings associations up to $100,000 per depositor. SAIF was established by FIRREA to replace the FSLIC as the insurer of savings associations. *See* Bank Insurance Fund.

Savings Certificate

Evidence of the ownership of a savings account typically representing a fixed amount of funds deposited for a fixed term at a specified rate of interest. *See* Certificate of Deposit.

Savings Liability

The aggregate amount of an association's deposits, including earnings credited to such accounts, less redemptions or withdrawals.

SBA

Small Business Administration.

Seasoned Loan

A loan that has been on the association's books long enough to demonstrate that the borrower's credit is sound.

SEC

Securities and Exchange Commission.

Second Lien

A lien subordinate to the first. *See* Junior Lien, Second Mortgage.

Second Mortgage

A mortgage that has rights subordinate to the first mortgage (the proceeds from a foreclosure sale must pay the first mortgage before any funds can go to repay the second).

Secondary Market

The market for reselling outstanding securities, opposite of primary market in which newly created securities are sold. *See* Freddie Mac.

Secured Creditor

A creditor whose obligation is backed by collateral.

Secured Debt

Any debt for which some form of acceptable collateral has been pledged.

Securities

Any documents that identify legal ownership of a physical commodity or legal claims to another's wealth.

Securitize

To put in the form of a security. For example, Freddie Mac securitizes a savings association's loans when they pool the loans into a participation certificate.

Security

(1) The collateral given, deposited, or pledged to secure the fulfillment obligation or payment of a debt. (2) An instrument that provides evidence of debt or of rights to share in earnings or distribution of property.

Security Ratings

Ratings placed on securities according to the degree of investment risk incurred by the purchaser.

Segregated Account

Funds set aside to meet specific obligations. Usually applies to cash set aside to meet drafts drawn under a letter of credit issued by the savings association; may also apply to funds set aside to honor checks certified by the savings association.

Self-Liquidating

Describes an asset that can be converted into cash or subject to the total recovery of invested money over a period of time.

Selling Hedges

See Short Hedge.

Senior Lien

Opposite of Junior Lien. *See* First Mortgage.

Sensitivity Analysis

Another term for gap analysis, an evaluation of an association's make-up, revealing the areas in which it is exposed to the risk of changing interest rates. *See* Gap.

Serial Bond Issue

Bonds of a single issue that mature on staggered dates rather than all at once. The purpose of a serial bond issue is to help the issuer retire the bonds in small quantities over a long period.

Service Charge

A fee for services rendered or to be rendered.

Service Corporation

A corporation previously defined in OTS regulations as being owned by one or more savings associations and performing services and engaging in certain activities for its owners, such as originating, holding, selling, and servicing mortgages; performing appraisal, brokerage, clerical, escrow, research, and other services; and acquiring, developing, or renovating and holding real estate for investment purposes. This term became obsolete with the issuance of the Subsidiary and Equity Investment Rule, effective January 1, 1997.

Servicing Assets

Benefits recognized by an entity undertaking a contract to service loans and other financial assets. Servicing includes collecting principal, interest, and escrow payments from the borrowers; paying taxes and insurance from escrowed funds; monitoring delinquencies; executing foreclosure, if necessary; temporarily investing funds pending distribution; remitting fees to guarantors, trustees, and others providing services; and accounting for and remitting principal and interest payments to the holders of beneficial interests in the financial assets.

SFAC

Statement of Financial Accounting Concepts issued by the Financial Accounting Standards Board.

SFAS

Statement of Financial Accounting Standards issued by the Financial Accounting Standards Board. Also called FASB Statements. *See* Financial Accounting Standards Board.

Share Loan

A loan secured by funds on deposit at a financial institution. One purpose of a share loan is to preserve interest due on deposits by not withdrawing the funds until the date on which the interest payment is due or the account matures. *See* Passbook Loan

Shared-Appreciation Mortgage (SAM)

A home-financing technique where the borrower receives a mortgage rate that is lower than the prevailing rates. The borrower must agree to give the lender a share of the profits from the eventual sale of the property. A SAM has payments that are based on a normal (typically 30- year) amortization schedule, but the loan becomes due and payable at an earlier date (typically not later than at the end of 10 years). A SAM has an interest rate below that on a conventional mortgage and a contingent interest feature, where at either the sale or transfer of the property or the refinancing or maturity of the loan, the borrower must pay the lender a share of the appreciation of the property securing the loan.

Shareholder

The owner of shares of equity in an organization. The owners of a corporation.

Shelf Registration

A type of Registration Statement, pursuant to Rule 415 of the SEC, that authorizes a certain principal amount of securities to be issued, in whole or in parts, in the future, thereby spreading the issuance dates over a period of time.

Short

(1) The sale of a futures contract. (2) A trader who has a short position in a commodity.

Short Hedge

A hedge transaction in which futures contracts are sold and then purchased; a short hedge protects the hedger against interest rate increases, the major risk faced by financial institutions.

Short-Term Debt

An obligation that is usually due within one year.

Short-Term Fixed-rate Tranches

CMO tranches that have fixed rates and expected maturity of five years or less.

Short-Term Planned Amortization Classes (PACs)

CMO tranches that have fixed rates, a prioritized repayment schedule within certain prepayment speeds, and expected maturity of five years or less. Targeted Amortization Classes (TACs) are considered to be substantially similar to PACs for reporting purposes.

Short-Term PAC Support Tranches

CMO tranches that have fixed rates, expected maturity of five years or less, and are part of a CMO structure that contains a PAC or TAC tranche(s).

Single-family Dwelling

A housing unit designed for occupancy by one individual or family. *See* Dwelling Units, 1-4.

Sinking Fund

The obligation to retire debt instruments according to a predetermined schedule.

Special Redemption

Special redemptions are designed to allow the issuer to retire a security earlier than scheduled, precluding interest from accruing during the remaining period. The amount of principal redeemed is limited to the amount that would have been retired at the next scheduled payment date.

Specific Valuation Allowance

A valuation allowance representing an amount classified as a loss on specific assets. In the TFR, assets are reported net of specific valuation allowances. *See* Valuation Allowance.

Spread

(1) The difference between interest income and interest expense. (2) The simultaneous purchase of one futures contract and sale of another, either different contract months or underlying instruments. One does this to try to profit from differing rates of change in different contract months or contracts, often due to changing market factors, such as, rising or falling rates, shifts in yield curve.

Standard Prepayment Assumption

A commonly used prepayment model based on an assumed monthly rate of prepayment of the then current principal balance of a pool of new mortgage loans.

Standby Letter of Credit

A letter of credit that can only be drawn against if a specified business transaction is not performed.

Standbys

Non-binding commitments to make or take delivery of securities, commonly used in the mortgage market when dealing with Fannie Mae.

Stock Dividend

See Dividend, Stock.

Strike Price

The price at which the holder of the call or put may exercise his right to purchase or sell the underlying futures contract. Synonymous with exercise price.

Strip

A hedge transaction which involves selling or buying the same futures contract across several delivery months, such as, selling T-Bills for June, September, and December at the same time. The objective is to lengthen the effective hedging period.

Strip Certificate

A certificate showing ownership of a fractional share of stock that can be converted into a full share when presented in amounts equal to a full share.

Strip Hedge

The selling of a series of futures contracts with different maturities. The purpose is to lock in interest costs that vary based on the contract settlement date.

Structured Securities

Debt securities with derivative-like characteristics that are issued by corporations and government-sponsored enterprises (GSEs), including Freddie Mac, Fannie Mae, and the Federal Home Loan Banks. Structured notes take various forms and often contain complex rate-adjustment formulas and embedded options, such as, calls, caps, and collars.

Student Loan Marketing Association (Sallie Mae)

A government-sponsored private corporation created to increase the flow of funds into loans by facilitating the purchase of student loans in the secondary market.

Subordinate Organization

Any corporation, partnership, business trust, association, joint venture, pool, syndicate, or other similar business organization in which a savings association has a direct or indirect ownership interest. There is an exception when that ownership interest qualifies as a pass-through investment pursuant to 12 C.F.R. § 560.32 and the savings association designates it as such.

Subordinated Debt

Obligations whose liquidation preference is inferior to that of other debt.

Subprime Lending

Credit extended to borrowers exhibiting higher (frequently much higher) risk of default characteristics than traditional bank lending customers. Risk of default may be measured by traditional credit risk measures (credit/repayment history, debt-to-income levels, etc.) or by alternative measures such as credit scores. Subprime borrowers represent a broad spectrum of debtors ranging from those who have exhibited repayment problems due to an adverse event, such as job loss or medical emergency, to those who persistently mismanage their finances and debt obligations. Subprime lending does not include loans to borrowers who have had minor, temporary credit difficulties but are now current.

Subsidiary

Any organization controlled by another organization. The OTS Subsidiary and Equity Investment Rule defines subsidiary as a consolidated subsidiary and refers generically to organizations under the control of a parent organization as subordinate organizations. *See* Consolidation.

Substandard

Describing conditions making a risk less desirable than normal for its class. A classification of assets under OTS Regulations. *See* Classified Assets.

Super-floater

An asset that has a variable rate that adjusts by a multiple of a change in an interest-rate index. Thus if the super-floater adjusts at 1.25 times the change in LIBOR, a decrease of two basis points in LIBOR would cause a decrease of 2.5 (2 x 1.25) basis points in the super-floater. Super-floater is most commonly used to describe CMO tranches that reprice based on a formula containing a multiple of the three-month LIBOR rate.

Super Floating Rate Tranches

CMO tranches that have rates adjusting at some multiple of, and in the same direction as, an index such as LIBOR.

Super Principal Only (P/O) Tranche

A long-term zero coupon, deep discount PAC that is the only support tranche of a PAC or TAC CMO.

Supervisory Authority

The official or officials authorized by law to ensure that associations comply with the governing charter, statutes, and by-laws.

Supervisory Merger

The takeover of one savings association – typically an insolvent association – by another with our oversight.

Suspense Account

A general ledger account used to hold over unposted items so the business day can balance at closing.

Swap

An agreement between two parties to exchange a series of cash flows, one representing a fixed rate and the other a floating rate. In a currency swap, two parties contract to exchange the cash flows - of equal net present value of specific assets or liabilities that are expressed in different currencies.

In the classic – widely known as plain vanilla – interest-rate swap, two parties contract to exchange interest service payments, and sometimes principal service payments, on the same amount of indebtedness of the same maturity with the same payment dates - one providing fixed interest-rate payments in return for variable-rate payments from the other and vice versa. Basis swaps – floating rate swaps based on different indices, such as prime against LIBOR – and combined interest rate and currency swaps, circus swaps, are also common. There are numerous variations involving many counterparts that result in highly complex swap transactions.

T

T-Bill

Treasury Bill.

TAC

Targeted Amortization Class.

Tangible Capital

Our capital regulations define tangible capital as equity in accordance with GAAP, adjusted for unrealized gains and losses on certain available-for-sale securities, less investments in nonincludable subsidiaries, less goodwill and other intangible assets, less certain nonqualifying equity instruments, plus minority interest in includable consolidated subsidiaries, plus nonwithdrawable deposits of mutual associations. Our capital rule requires savings associations to hold a ratio of 1.5% tangible capital to tangible assets.

Tangible Net Worth

GAAP net worth less goodwill and other intangible assets.

TBA

Abbreviation for future pools **to be announced** which are bought and sold for future settlement. To be announced refers to interest rates and due dates which are determined at a later date. Trading in these securities is done on a yield basis.

TDR

Troubled Debt Restructuring.

Teaser Rate

The initial below-market interest rate offered on an adjustable-rate mortgage in return for the borrower sharing the risk of rising rates during the course of the loan.

TFR

Thrift Financial Report.

Threshold Rate

Represents the rate established by management policy for a fixed-rate asset category above which new assets may be added and below which lower yielding assets will be sold. Should be tied to policies related to dollar volume and maturity limits.

Thrift Financial Report

The financial report that we require of all savings associations under our jurisdiction; OTS Form 1313.

Thrift Holding Company

See Holding Company.

Tick

Refers to a change in price, either up or down. Synonymous with minimum fluctuation.

Time Deposit

An interest-bearing deposit that will mature on a specific date.

Time-Share Loan

A loan that enables a buyer to take part in a form of real property ownership that grants each of several owners the exclusive right to occupy a housing unit during a specified time period each year. These loans are reported as nonmortgage loans on the TFR.

Time Value

A portion of an option premium unrelated to buying and selling at a more favorable price.

Trade

A term that indicates the consummation of a security transaction, either a purchase or a sale.

Trade Date

The date a security transaction is actually executed.

Trading Account

Securities that you intend to hold principally for the purpose of selling them in the near term. Trading activity includes frequent buying and selling of securities for the purpose of generating profits from price fluctuations. Securities in a trading account must be listed on financial reports at market value.

Tranche

Also called a class. CMOs generally have several bond classes; each bond is considered a separate tranche or class, each with different maturities and/or interest rates and accrual structures.

Troubled Debt Restructuring

A troubled debt restructuring occurs when the financial institution provides the borrower certain concessions that it would not normally consider. The concessions must be in light of the borrower's financial difficulty, and the objective must be to maximize recovery of the institution's investment. Troubled debt restructures are often, but not always, the result of legal proceedings or negotiations between the parties.

Troubled debt restructures include situations in which the reporting association accepts any one of the following:

- A note, secured or unsecured, from a third party in payment of its receivable from the borrower.
- The underlying collateral in payment of the loan, either through foreclosure, other transfer of title, or in-substance foreclosure.
- Other assets in payment of the loan.
- An equity interest in the borrower or its assets in lieu of its receivable.
- A modification of the terms of the debt including, but not limited to any of the following:
    - Reduction in stated interest rate.
    - Extension of maturity at an interest rate below market.
    - Reduction in the face amount of the debt.
    - Reduction in the accrued interest.

A foreclosure or other asset received in payment of a loan is TDR only if a loss is incurred. In calculating whether or not a loss occurred, the fair value of the foreclosed property is compared to the recorded investment in the receivable without deducting valuation allowances or charge-offs.

Any restructuring of loan terms must be accounted for in accordance with GAAP as principally prescribed in FASB Statement Nos. 114, 118, 15 and 5. Foreclosed assets are reported at fair value less cost to sell.

Treasury Bill

A U.S. government short-term security sold to the public each week at a discount, maturing in 91 to 182 days.

Treasury Bond

See Bond, Treasury.

Treasury Note

A U.S. government long-term security, sold to the public, maturing in one to five years.

Treasury Stock

Stock reacquired by the same company that issued it with the intention of subsequent resale or transfer, such as an Employee Stock Option Plan.

U V

Unlimited Mortgage

An open-end mortgage; a mortgage not limited to a fixed amount.

Unrealized Gain or Loss

A loss that you have not yet realized because the related asset has not yet been sold or disposed of.

VA

(1) Valuation Allowance. (2) Veterans' Administration.

Valuation Allowance

A contra-asset established against receivables and investments based on the amount expected to be collected. Valuation allowances are established for covering probable and estimably credit losses. Refer to FASB Statement No. 5. *See* Allowance for Loan and Lease Losses, Allowance, Specific Valuation Allowance, and General Valuation Allowance.

Variable Rate

An interest rate on an asset or liability that can be repriced periodically when market interest rates change, without regard to maturity. Also called "floating rate". *See* Adjustable Rate Mortgage.

Variation Margin

See Maintenance Margin.

Voting Stock

Stock for which the holder has the right to vote in the election of directors, the appointment of auditors, and other matters brought up at the annual stockholders' meeting. Most common stock is voting stock; most preferred stock is nonvoting stock.

WXYZ

Warehouse Loan

A short-term line of credit used by mortgage bankers to fund loans prior to sale. Financial institutions that hold loans as collateral until collateral is delivered to the investor usually provide this type of credit.

Warehousing

Inventory financing. *See* Warehouse Loan.

Weighted Average Coupon (WAC)

The WAC is calculated as a weighted-average of the underlying mortgage interest rates as of the issue date, using the balance of each mortgage as the weighting factor. A WAC is needed only when the underlying mortgages have varying interest rates.

Weighted Average Maturity (WAM)

The weighted average is the remaining term to maturity of the underlying mortgages at the issue date, using the balance of each mortgage as the weighting factor.

Weighted Average Remaining Term

The remaining term to maturity over time as the security ages. This number can be calculated at any point in time. Sometimes weighted average remaining term is mistaken for the weighted average maturity, which is the remaining term at the issue date. The weighted average remaining term must be recalculated each month and is impacted by prepayments.

Whole Loans

Mortgages that are not divided into participation units or pooled to back securities or participation certificates.

Whole Pools

A mortgage certificate where ownership is represented by an entire pool of mortgage loans, as opposed to a fractional interest in a pool.

With Recourse

An agreement where the seller assumes a stated level of risk for the performance of the asset sold; the purchaser has the right to endorse a claim against the seller for sustained damages in the case of nonperformance. *See* Recourse.

Without Recourse

An agreement where the purchaser accepts all risks in the transaction, and gives up rights to any recourse. *See* Recourse.

Wraparound Mortgages

A second mortgage that wraps around, or exists in addition to, a first or other mortgage(s). The lender assumes the existing mortgage(s) thus continues to pay the monthly installments at the original lower interest rate(s), and also loans the purchaser additional money to meet the higher purchase price specified in the contract. The rate charged to the purchaser on the total mortgage amounts is higher than the original rate. This type of mortgage allows the terms of the original mortgage to be satisfied, compensates the seller for the sale of his or her investment, and allows the buyer to purchase a home. The wraparound lender benefits from the below-market rates of the existing mortgage that the lender has assumed while charging the purchaser a higher rate on the full loan.

Wraparound mortgages are also used as a method of obtaining refinancing when an owner wants to increase the amount of mortgage outstanding. In this case the lender assumes the existing mortgage and the borrower enters into a loan in an amount covering both the old mortgage and the additional funds disbursed.

Write-off

An asset or portion of an asset charged off as a loss because it is determined to be uncollectable. *See* Charge-off.

Write-up

Increasing an asset's book value by adjusting the value of an asset to correspond to an appraisal or market value. Unrealized gains.

Year-end Adjustment

A ledger account modification entered at the close of a fiscal period. The modification might be the result of an accrual, prepayment, physical inventory, reclassification, policy change, audit adjustment, or other entry.

Yield

The effective annual rate of income being accrued on an investment, expressed as a percentage of the original price.

Yield Adjustment

A portion of the purchase price of an asset that is an adjustment to interest over a specified period, typically over the life of the asset. A yield adjustment is set up in a separate account from the asset and is accreted to income at a rate similar to interest. Examples: Discounts and premiums, loan fees, prepaid interest, etc.

Yield to Maturity

The rate of return earned by a debt instrument held to maturity. The rate of return calculates interest payments reinvested at the coupon rate, and factors in capital gains or losses.

YTD

Year-to-date. Generally designates that income figures are for the year up to a given date, rather than for a shorter period such as a month or a quarter.

Zero Rate

A type of asset or liability that bears no interest. Examples: Commercial checking accounts and vault cash.

Zero-coupon Bond

See Bond, Zero Coupon.